

Department of Education
Assistance to Schools

A.R.S. § 15-231

	FY 2003 Actual	FY 2004 Estimate	FY 2005 Approved
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	67.7	67.7	67.7 ^{1/}
SPECIAL LINE ITEMS			
<u>Statutory Formula Programs</u>			
Basic State Aid Entitlement	2,322,127,800	2,668,539,500 ^{2/3/}	2,802,264,000 ^{2/4/5/6/}
Additional State Aid to Schools	254,066,500	273,268,500	296,669,700
Assistance to School Districts for Children of State Employees	58,000	99,500	99,500
Certificates of Educational Convenience	0	269,900	269,900
Special Education Fund	27,600,900	29,617,600	31,093,500
<i>Subtotal - Statutory Formula Programs</i>	2,603,853,200	2,971,795,000	3,130,396,600
<u>Non-Formula Programs</u>			
Adult Education Assistance	4,409,700	4,438,200	4,442,100 ^{7/8/}
AIMS Intervention; Dropout Prevention	529,500	550,000	550,000
Chemical Abuse	745,100	796,300	799,200
English Learner Grants	6,091,200	15,310,000	15,310,000 ^{9/}
Extended School Year	500,000	500,000	500,000
Family Literacy	1,002,100	1,002,100	1,003,000
Gifted Support	1,262,500	1,301,400	1,303,400
Optional Performance Incentive Programs	120,000	120,000	120,000
Parental Choice for Reading Success	518,400	1,000,000	1,000,000
Residential Placement	10,000	10,000	10,000
School Accountability	3,056,600	4,678,100	4,691,800
School Report Cards	406,800	439,100	442,000
School Safety Program	6,448,600	6,700,700	6,703,600
Small Pass-Through Programs	581,600	581,600	581,600 ^{10/}
State Block Grant - Early Childhood Education	19,364,800	19,408,600	19,413,200
State Block Grant - Vocational Education	11,160,300	11,154,100	11,185,400 ^{11/}
Vocational Education Extended Year	400,000	600,000	600,000
Ch. 278, Full-Day Kindergarten	0	0	21,000,000
Ch. 278, Hayden-Winkelman	0	0	3,215,000
<i>Subtotal - Non Formula Programs</i>	56,607,200	68,590,200	92,870,300
PROGRAM TOTAL	2,660,460,400	3,040,385,200	3,223,266,900^{12/}
FUND SOURCES			
General Fund	2,587,174,700	2,975,964,400	3,168,883,100
<u>Other Appropriated Funds</u>			
Permanent State School Fund	70,263,000	59,761,100	46,509,100
Proposition 301 Fund	3,022,700	4,659,700	4,659,700
School Improvement Revenue Bond Debt Service Fund	0	0	3,215,000
<i>SUBTOTAL - Other Appropriated Funds</i>	73,285,700	64,420,800	54,383,800
SUBTOTAL - Appropriated Funds	2,660,460,400	3,040,385,200	3,223,266,900
Other Non-Appropriated Funds	334,834,800	335,319,800	395,534,000
Federal Funds	637,532,100	753,005,600	753,005,600
TOTAL - ALL SOURCES	3,632,827,300	4,128,710,600	4,371,806,500

1/ All FTE Positions relate to Special Line Items.

2/ Includes a \$(191,000,000) State General Fund reduction for deferring until July 1st of the following fiscal year a portion of the final Basic State Aid payment for the current fiscal year (the K-12 "rollover"). The FY 2004 and FY 2005 amounts also include a \$191,293,800 advance appropriation to pay for the prior year's deferred payment, plus interest. The \$191,293,800 advance appropriation for FY 2005 is from Laws 2003, Chapter 264.

3/ Laws 2004, Chapter 277 appropriated \$24,631,700 for supplemental funding for Basic State Aid for FY 2004.

4/ 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 \$46,509,100 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521(B) for FY 2004. (General Appropriation Act footnote)

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 2003	FY 2003	FY 2004	FY 2005
	Appropriation	Actual	Appropriation	Appropriation
• % of students tested who perform at or above the national norm on the norm-referenced test (grades 2 and 9)	55	NA	56	57
• % of schools with at least 75% of students meeting or exceeding standards in:				
-- reading	--	NA	93	94
-- writing	--		78	81
-- math	--		79	82
• % of Arizona high school students who enter 9 th grade and graduate within 4 years	--	NA	75	Baseline +1
• % of students in grade 3 meeting or exceeding state academic standards in:				
-- reading	76		78	81
-- writing	73	NA	82	84
-- math	54		67	71
• % of students in grade 5 meeting or exceeding state academic standards in:				
-- reading	70		62	66
-- writing	52	NA	62	66
-- math	45		50	55
• % of students in grade 8 meeting or exceeding state academic standards in:				
-- reading	58		60	64
-- writing	54	NA	50	55
-- math	25		40	46
• % of students in grade 12 meeting or exceeding state academic standards in:				
-- reading	--		90	91
-- writing	--	NA	80	82
-- math	--		70	73

- 5/ 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)
- 6/ Except as required by A.R.S. § 37-521, 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. An expenditure shall not be made except as specifically authorized above. (General Appropriation Act footnote)
- 7/ The appropriated amount is for classes in adult basic education, general education development and citizenship on a statewide basis. (General Appropriation Act footnote)
- 8/ 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)
- 9/ Includes \$15,310,000 appropriated by Laws 2001, Chapter 9, 2nd Special Session (the “Flores” bill). That total includes \$4,500,000 for teacher training reimbursements, \$5,500,000 for compensatory instruction, \$1,500,000 for instructional materials, \$3,060,000 for reclassification bonuses and \$750,000 for a K-3 pilot program.
- 10/ The appropriated amount includes \$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 Principal’s 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)
- 11/ 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 General Appropriation 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)
- 12/ General Appropriation Act funds are appropriated as Special Line Items by Program.

PERFORMANCE MEASURES (Cont'd)	FY 2003 Appropriation	FY 2003 Actual	FY 2004 Appropriation	FY 2005 Appropriation
• % of students in Grades 3, 5 and 8 meeting or exceeding state academic requirements in math and language arts		NA		Baseline +2
• % of students in Grades 10, 11 and 12 meeting state academic requirements in reading, writing and math		NA		Baseline +1
• % of students tested				
--Norm-referenced test (grades 2 and 9)	--	NA	100	100
--AIMS	--		95	96

Comments: The agency did not submit information for any measure labeled as "NA." "Baseline" means the rating that the agency will obtain for the measure for FY 2004, which will be the first year of implementation according to the agency's current strategic plan.

Special Line Items / 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. 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 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, its "local share" funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference.

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.

Basic State Aid is also provided to charter schools, which are schools that (unlike school districts) do not have geographic boundaries, operate under terms specified in a "charter," and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools is somewhat different than that of 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 BSL funding plus "Additional Assistance." BSL funding for charter schools is determined under the same 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) and for FY 2005 they equal \$1,303.97 per pupil for Grades K-8 and \$1,519.75 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Major Changes to Basic State Aid

The budget provides \$2,802,264,000 for Basic State Aid in FY 2005. This amount consists of \$2,755,754,900 from the General Fund and \$46,509,100 from the Permanent State School Fund. In addition, Basic State Aid will receive \$66,957,200 from the non-appropriated portion of the Proposition 301 Fund (*see Table 1*). The appropriated amounts include a General Fund increase of \$146,976,500 and a Permanent State School Fund decrease of \$(13,252,000). These amounts consist of the following adjustments:

Base Adjustment — The budget includes a General Fund increase of \$1,168,900 as a net base adjustment.

Student Growth — The budget includes a General Fund increase of \$147,272,700 above FY 2004 for student

Table 1: FY 2005 Basic State Aid Summary

	General Fund	Permanent State School Fund	Prop 301 Sales Tax	Total
Basic State Aid from FY 2004	\$2,608,778,400 ^{1/}	\$ 59,761,100	\$ 48,727,700	\$2,717,267,200
Changes for FY 2005:				
FY 2004 Base Adjustment	1,168,900	(1,722,700)		(553,800)
Enrollment Growth	147,272,700			147,272,700
2% Deflator	76,289,500			76,289,500
Net Assessed Valuation (NAV) Growth	(138,975,500)			(138,975,500)
Truth in Taxation	49,412,100			49,412,100
Endowment Earnings	11,529,300	(11,529,300)		0
Rollover – Remain at \$191 M	0			0
Additional School Day			18,229,500	18,229,500
DOC, DJC and Miscellaneous	279,500			279,500
Total – Cost after Formula Changes	\$2,755,754,900 ^{2/}	\$ 46,509,100 ^{2/}	\$ 66,957,200	\$2,869,221,200

^{1/} Includes \$24,631,700 in Basic State Aid supplemental funding for FY 2004 from Laws 2004, Chapter 277.

^{2/} Represents appropriated Basic State Aid Funds. Proposition 301 is not appropriated.

growth in school districts and charter schools. Of this amount, \$90,729,000 is for school district and district-sponsored charter school Average Daily Membership (ADM) growth, and \$56,543,700 for State Board-sponsored charter school ADM growth.

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 "current year growth" funding if its ADM count goes up in the current academic year. Current year growth funding, however, is not provided for in the capital and transportation portions of the Basic State Aid formula, which are paid on a prior year 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.

The approved FY 2005 amount assumes a 3.5% increase in the total statewide ADM count for academic year 2003-2004 and an additional 3.2% increase for academic year 2004-2005. (Both will affect the cost of Basic State Aid in FY 2005.)

The budgeted ADM breakdown for academic year 2004-2005 equals 879,209 district non-charter pupils, 2,598 district charter pupils and 87,484 state board charter pupils—for a total ADM count of 969,291.

2% Deflator — The budget includes a General Fund increase of \$76,289,500 for a 2% deflator. This includes a 2% increase in the formula funding "base level" (A.R.S. § 15-901.B2), the charter school "Additional Assistance" funding levels (A.R.S. § 15-185.B4), and transportation funding per route mile (A.R.S. § 15-945.A5).

A.R.S. § 901.01, as established by Proposition 301, requires the Legislature to increase the base level or other components of the Revenue Control Limit (RCL) by 2% each year through FY 2006. After FY 2006, it requires the

base level or other components of the RCL to be increased by 2% or the change in the GDP price deflator, whichever is less. A.R.S. § 901.01 prohibits the Legislature from ever setting a base level that is below the FY 2002 base level of \$2,687.32.

The 2% base level increase (along with a further 0.5% increase for an additional school day, as described below) will result in a base level of \$2,893.18 per pupil for FY 2005.

The 2% additional assistance increase for FY 2005 will raise that amount to \$1,303.97 per pupil for Grades K-8 and \$1,519.75 per pupil for Grades 9-12.

The 2% increase in transportation funding will provide \$1.71 or \$2.11 per route mile for FY 2005, depending on total route miles for a school district (*see A.R.S. § 15-945.A5*).

Growth in School District Assessed Valuation — The budget includes a General Fund decrease of \$(138,975,500) for NAV growth, which assumes 9.5% NAV growth for the year. Growth in school district Net Assessed Valuation (NAV) increases the amount of formula funding that is generated locally, thereby reducing the need for Basic State Aid. The \$(138,975,500) estimate does not include the effect of "Truth in Taxation" upon local share funding for schools, which is discussed below.

"Truth in Taxation" — The budget includes a General Fund increase of \$49,412,100 for "Truth in Taxation" (TNT). Statute 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 rises. The adjustments

require increases in state General Fund monies for Basic State Aid because they reduce the amount of “local share” monies that otherwise would be available to help fund the Basic State Aid formula.

As of February 16, 2004, the JLBC reported that the FY 2005 rates would be as follows: QTR = \$1.89 or \$3.79 (depending upon the type of school district) per \$100 of NAV; County Equalization = \$0.46 per \$100 of NAV (all rates have been rounded to the nearest penny).

Endowment Earnings — The budget includes a General Fund increase of \$11,529,300 and a Permanent State School Fund decrease of \$(13,252,000) in order to compensate for a projected reduction in available “Endowment Earnings” from the Permanent State School Fund for FY 2005. This assumes that \$46,509,100 in Endowment Earnings will be available to help fund Basic State Aid in FY 2005 versus \$59,761,100 in FY 2004 (*see Table 1*).

The estimated \$(13,252,000) net Permanent State School Fund decrease for FY 2005 equals a projected \$10,501,900 increase in the amount of Permanent State School Fund revenues available for Basic State Aid minus \$(23,753,900) for estimated first-time debt service on State School Trust Revenue Bonds. Laws 2003, Chapter 264 authorized the School Facilities Board to issue up to \$247,135,000 in State School Trust Revenue Bonds in order to help fund Deficiencies Corrections pursuant to A.R.S. § 15-2021. It also amended A.R.S. § 37-521.B1 in order to require the State Treasurer and State Land Department to transfer to the School Trust Revenue Bond Debt Service Fund each year the amount of K-12 Endowment Earnings needed in order to pay debt service on State School Trust Revenue Bonds.

Endowment Earnings consist of investment income earned by the State Treasurer on monies invested from the Permanent State Common School Fund and distributed according to a formula prescribed in Article X, Section 7 of the State Constitution. They also include revenues received by the State Land Department from leases and other commercial activities on state trust lands and from interest received from purchasers of state trust lands.

A.R.S. § 37-521, as amended by Proposition 301, dedicates all growth in expendable endowment earnings above the FY 2001 level of \$72,263,000 to the Classroom Site Fund. As of June 2004, the JLBC Staff estimates that total expendable endowment earnings for FY 2005 will be \$109,780,400. This would result in an endowment earnings transfer of \$26,868,700 to the Classroom Site Fund for FY 2005.

K-12 Rollover — The budget includes \$191,293,800 that was advance appropriated for FY 2005 by Laws 2003, Chapter 264 in order to postpone until July 1, 2004 (the 1st

day of FY 2005) \$191,293,800 in Basic State Aid funding for FY 2004 (the “rollover”).

Laws 2004, Chapter 278 defers until July 2005 (the 1st day of FY 2006) \$191,293,800 in Basic State Aid funding for FY 2005. The K-12 rollover will not be paid off permanently until “13 months” of Basic State Aid payments are appropriated for a given fiscal year.

Additional School Day — In addition to the approved amount, the Basic State Aid program will receive \$66,957,200 from the Proposition 301 Fund (an increase of \$18,229,500) for additional school days in FY 2005. This funding is not included in the approved amount because it is not appropriated by the Legislature. Instead it is automatically transferred to the program each year pursuant to A.R.S. § 42-5029(E5), as established by Proposition 301.

The \$66,957,200 total will be disbursed to school districts through the Basic State Aid formula as part of the overall “base level” increase for the year. The \$66,957,200 amount is intended to fund a 179-day school year. This is an increase of 4 school days above the 175-day school year that existed prior to Proposition 301.

Proposition 301 requires a 180-day school year by FY 2006. It allocates \$86,280,500 per year starting in FY 2006 for a 180-day school year.

Rapid Decline — The budget provides \$2,429,800 from the General Fund for Rapid Decline for FY 2005. This amount is unchanged from FY 2004 and assumes that Rapid Decline will be funded at 50%.

Rapid Decline was funded at 100% for FY 2004 because the Governor vetoed language requiring it to be funded at 50% for the year. The Governor, however, did not add money to the FY 2004 Basic State Aid budget to compensate for the veto, so the base budget for Rapid Decline for FY 2004 remained at \$2,429,800. A portion of the Basic State Aid supplemental for FY 2004 (*described below*) was instead used to fund Rapid Decline at 100% for FY 2004.

Rapid Decline funding is authorized by A.R.S. § 15-942 and buffers the funding loss that occurs when a school district loses more than 5% of its student count in a given year.

Joint Technological Education District Cap — The budget includes no funding change for a cap on joining or forming Joint Technological Education Districts (JTED’s). Laws 2002, Chapter 330 capped JTED growth through FY 2004. Laws 2004, Chapter 341 continues this cap, but modifies it to allow 2 new JTED’s that were allowed to open under Chapter 330 to grow in FY 2005 using local monies only.

Other Adjustments — The budget includes a General Fund increase of \$279,500 for miscellaneous other adjustments that affect Basic State Aid costs. These adjustments are for costs such as Department of Juvenile Corrections Education System aid, financial and compliance audits, tuition loss, unorganized territory ADM and transportation, county detention center education and county jail education.

FY 2004 Supplemental — Laws 2004, Chapter 277 appropriated \$24,631,700 in supplemental Basic State Aid funding from the General Fund to the department for FY 2004. These additional monies are included in the funding summary table for this cost center and for the agency as a whole.

Additional State Aid to Schools

The budget provides \$296,669,700 from the General Fund for Additional State Aid to Schools in FY 2005. The budget includes a General Fund increase of \$20,401,200 for higher formula costs due to ongoing property value growth and tax rate changes. It also includes a General Fund increase of \$1,000,000 for a new “soft cap” on desegregation expenditures and a General Fund increase of \$2,000,000 for expiration of an existing cap on school district excess utilities expenditures.

This program funds the “homeowner's rebate,” whereby the state pays 35% (up to \$500) of every homeowner's primary property tax levy for school districts (A.R.S. § 15-972). It also funds the portion of a homeowner's overall primary property tax levy (if any) that exceeds 1% of the property's full cash value pursuant to Article IX, § 18 of the Arizona Constitution (the “1% cap”).

Desegregation Cap — The “soft cap” on desegregation expenditures is pursuant to Laws 2004, Chapter 278, Section 16. As session law, Chapter 278 allows desegregation costs to increase in FY 2005 by the combined rate of enrollment growth and inflation. Desegregation expenditures were capped at the FY 2002 level for FY 2003 and FY 2004 by Laws 2002, Chapter 68. Additional State Aid costs are expected to increase under the soft cap because it will allow local property tax collections for desegregation programs to increase and those taxes are subsidized by the Homeowners Rebate and 1% cap programs.

Excess Utilities Cap — As noted above, the approved amount for FY 2005 also includes \$2,000,000 for expiration of a cap on excess utilities expenditures. Laws 2002, Chapter 330 capped excess utilities budgets at the FY 2002 level for FY 2003 and FY 2004. Excess utilities, like desegregation programs, are funded through local primary property taxes. Increases in excess utilities costs under the expired cap therefore are also expected to increase Homeowner's Rebate and 1% cap costs for FY 2005.

Assistance to School Districts for Children of State Employees

The budget provides \$99,500 from the General Fund for the Assistance to School Districts for Children of State Employees program for FY 2005. This amount is unchanged in FY 2005.

The program 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 budget provides \$269,900 from the General Fund for Certificates of Educational Convenience in FY 2005. This amount is unchanged from FY 2004.

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 budget provides \$31,093,500 from the General Fund for the special education voucher program in FY 2005. This amount includes an increase for statewide salary and other adjustments. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)* It also includes an increase of \$873,700 for enrollment growth and an increase of \$601,300 for the 2% base level increase required by Proposition 301. The funding formula for special education vouchers uses the same “base level” as the Basic State Aid program and Proposition 301 requires that base level to increase by 2% for FY 2005. The line item includes 1 FTE Position.

The Special Education Fund 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].

Special Line Items / Non-Formula Programs

Adult Education Assistance

The budget provides \$4,442,100 from the General Fund for the Adult Education program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The total appropriation of \$4,442,100 includes \$354,900 for program administration and \$4,087,200 in pass through funding. The line item includes 4 FTE Positions. 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 budget provides \$550,000 from the General Fund for the AIMS Intervention/Dropout Prevention program in FY 2005. This amount is unchanged from FY 2004. 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.

Chemical Abuse

The budget provides \$799,200 from the General Fund for the Chemical Abuse program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The total appropriation includes \$147,500 for program administration and \$651,700 in pass through funding (unchanged) for schools. The line item includes 3 FTE Positions. The program funds chemical abuse prevention programs for students in grades K-12 pursuant to A.R.S. § 15-712.

English Learner Grants

The budget provides \$15,310,000 from the General Fund for English Learner Grants in FY 2005. This funding was appropriated by Laws 2001, Chapter 9, 2nd Special Session (the "Flores" bill) and is unchanged from FY 2004. The \$15,310,000 total includes \$4,500,000 for reimbursing teachers who become certified to teach English Learners, \$5,500,000 for compensatory instruction, \$1,500,000 for instructional materials, \$3,060,000 for reclassification bonuses and \$750,000 for a K-3 pilot program for English Learners. The Chapter 9 funding ends after FY 2005.

Extended School Year

The budget provides \$500,000 from the General Fund for the Extended School Year program in FY 2005. This amount is unchanged from FY 2004. The program helps pay for extended school year programs for handicapped students, as required by A.R.S. § 15-881.

Family Literacy

The budget provides \$1,003,000 from the General Fund for the Family Literacy program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The total appropriation includes \$52,100 for program administration and \$950,900 in pass through funding (unchanged) for the program. The line item includes 1 FTE Position. 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.

Gifted Support

The budget provides \$1,303,400 from the General Fund for the Gifted Support program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The approved total consists of \$110,900 for program administration and \$1,192,500 in pass-through monies for schools. The line item includes 2 FTE Positions. The 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 budget provides \$120,000 from the General Fund for Optional Performance Incentive Programs in FY 2005. This amount is unchanged from FY 2004. 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 budget provides \$1,000,000 from the General Fund for the Parental Choice for Reading Success program in FY 2005. This amount is unchanged from FY 2004. The program funds training and continued development of teachers on reading instruction and scientifically based reading research pursuant to A.R.S. § 15-704.

Residential Placement

The budget provides \$10,000 from the General Fund for Residential Placement in FY 2005. This amount is unchanged from FY 2004. 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 budget provides \$4,691,800 for School Accountability in FY 2005. This amount consists of \$4,659,700 from the Proposition 301 Fund and \$32,100 from the General Fund. The approved General Fund amount includes an increase for statewide salary and other adjustments. The line item includes 14 FTE Positions.

Table 2

School Accountability Funding for FY 2005

<u>Item</u>	<u>FY 2005</u>
School Profiles (6 FTE Positions)	\$ 426,800
Solution Teams	3,600,000
SAIS Maintenance (8 FTE Positions)	651,300
Statewide Salary Adjustment	13,700
Total	\$4,691,800

The FY 2005 total in *Table 2* does not include \$2,340,300 in Proposition 301 sales tax monies that are appropriated for achievement testing for the year. This increases the overall appropriation of “Proposition 301 Fund” monies to \$7,000,000. (See the “Achievement Testing” narrative in the General Services Administration cost center for more information regarding the achievement testing appropriation.)

Unlike funding for other Proposition 301 programs, which is automatically appropriated each year, funding for School Accountability 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 purpose of the School Accountability program is to promote improved student achievement and school accountability pursuant to A.R.S. § 15-241.

School Report Cards

The budget provides \$442,000 from the General Fund for School Report Cards in FY 2005. This amount includes an increase for statewide salary and other adjustments. This line item includes 3 FTE Positions.

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 budget provides \$6,703,600 from the General Fund for the School Safety Program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The program also receives \$7,800,000 in Proposition 301 sales tax monies each year that is automatically appropriated by A.R.S. § 42-5029(E6). The line item includes 3 FTE Positions. The program places peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154.

Small Pass-Through Programs

The budget includes \$581,600 from the General Fund for Small Pass-Through Programs in FY 2005. This amount is unchanged from FY 2004. It includes \$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 budget includes \$19,413,200 from the General Fund for the State Block Grant for Early Childhood Education

program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The total appropriation consists of \$338,800 for program administration and \$19,074,400 in pass-through money for schools. The line item includes 4.7 FTE Positions. 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 budget provides \$11,185,400 from the General Fund for the State Block Grant for Vocational Education program in FY 2005. This amount includes an increase for statewide salary and other adjustments. The total appropriation consists of \$1,967,300 for program administration and \$9,218,100 in pass-through monies for schools. The line item includes 32 FTE Positions. The program provides block grants to school districts and charter schools that have career and technical education programs.

Vocational Education Extended Year

The budget provides \$600,000 from the General Fund for the Vocational Education Extended Year program in FY 2005. This amount is unchanged from FY 2004. This funding is to enable students to attend an extended year or summer school program in a joint technological education district pursuant to A.R.S. § 15-783.02.

Ch. 278 Full-Day Kindergarten

Laws 2002, Chapter 278 (the FY 2005 Education Budget Reconciliation Bill) includes \$21,000,000 from the General Fund in FY 2005 for Full-Day Kindergarten. This funding is appropriated by Section 13 of Chapter 278.

Section 3 of Chapter 278 establishes Full-Day Kindergarten in permanent law. It states that “the Legislature shall develop a plan, including capital monies, considering recommendations of the Joint Legislative Study Committee on Full-Day Kindergarten... to provide statewide Full-Day Kindergarten instruction by FY 2010.”

Section 3 of Chapter 278 also establishes a Joint Legislative Study Committee on Full-Day Kindergarten and requires it to submit by December 1, 2004 preliminary recommendations for providing Full-Day Kindergarten statewide by FY 2010.

Chapter 278 stipulates that FY 2005 funding for Full-Day Kindergarten is to be allocated to schools in which at least 90% of pupils are eligible for free or reduced price lunches under the federal school lunch program.

Chapter 278 also appropriates \$4,000,000 from the State General Fund to the School Facilities Board for distribution of capital grants to school districts that require immediate additional space for Full-Day Kindergarten. That funding appears as part of the School Facilities Board

budget for FY 2005 (*see the School Facilities Board budget pages for additional information*).

Ch. 278 Hayden-Winkelman

Laws 2004, Chapter 278 includes \$3,215,000 from the School Improvement Revenue Bond Debt Service Fund in FY 2005 for distribution to the Hayden-Winkelman Unified School District.

Section 17 of Chapter 278 requires the district to use the \$3,215,000 to redeem its outstanding series 1994 callable general obligation bonds. It also requires the district to levy a secondary property tax in order to repay the \$3,215,000 appropriation in 5 annual installments of principal and 4% simple interest starting on July 1, 2011. Redeeming its outstanding series 1994 callable general obligation bonds is expected to help the district lower its property tax rates below current levels. In recent years the Hayden-Winkelman Unified School District has experienced high levels of uncollected property taxes, which has contributed to rapid growth in its local property tax rates.

Chapter 278 (Section 18) establishes a Joint Legislative Study Committee on Hayden-Winkelman property taxes and requires it to study property tax issues for the district and submit by December 31, 2004 a report of its findings and recommendations.

Chapter 278 also establishes (in Section 5) permanent law that makes school districts eligible for new “Supplemental State Aid” funding if a county treasurer certifies that more than 30% of the primary property taxes of a school district will not be paid due to property tax delinquencies. The new statutory language includes repayment provisions for situations where delinquent property taxes are eventually paid.

Fund Transfers

Certificates of Participation

Laws 2004, Chapter 278 transfers \$600,000 from the Certificates of Participation Fund to the Department of Education for allocation to a school district that served more than 150 pupils from unorganized territories in FY 2003. The funding is designated for the purchase of pupil transportation vehicles. This transfer is not part of the agency’s appropriation and is not reflected in the tables above.

Additional Legislation

Department of Education; Budget Reconciliation

In addition to provisions described elsewhere, the Education Budget Reconciliation Bill for FY 2005 (Laws 2004, Chapter 278) includes the following session law items: 1) continues to prohibit the State Board of Education from sponsoring additional charter schools, 2)

continues to allow school districts to have a shorter than 36-week school year using longer days, and 3) permits desegregation expenditures to increase for enrollment growth and inflation (“soft cap”).

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