Department of Education
Assistance to Schools

JLBC: Steve Schimpp
OSPB: Dawn Nazary

DESCRIPTION	FY 2003 ACTUAL	FY 2004 ESTIMATE	FY 2005 OSPB	FY 2005 JLBC
OPERATING BUDGET				
Full Time Equivalent Positions	67.7	67.7		67.7
SPECIAL LINE ITEMS				
Statutory Formula Programs				
Basic State Aid Entitlement	2,322,127,800	2,643,907,800		2,834,112,600
Additional State Aid to Schools	254,066,500	273,268,500		287,990,600
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		31,092,600
Subtotal - Statutory Formula Programs	2,603,853,200	2,947,163,300		3,153,565,200
Non-Formula Programs				
Adult Education Assistance	4,409,700	4,438,200		4,438,200
AIMS Intervention; Dropout Prevention	529,500	550,000		550,000
Chemical Abuse	745,100	796,300		796,300
English Learner Grants	6,091,200	15,310,000		15,310,000
Extended School Year	500,000	500,000		500,000
Family Literacy	1,002,100	1,002,100		1,002,100
Gifted Support	1,262,500	1,301,400		1,301,400
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		4,678,100
School Report Cards	406,800	439,100		439,100
School Safety Program	6,448,600	6,700,700		6,700,700
Small Pass-Through Programs	581,600	581,600		581,600
State Block Grant - Early Childhood Education	19,364,800	19,408,600		19,408,600
State Block Grant - Vocational Education	11,160,300	11,154,100		11,154,100
Vocational Education Extended Year	400,000	600,000		600,000
Subtotal - Non Formula Programs	56,607,200	68,590,200		68,590,200
PROGRAM TOTAL	**2,660,460,400**	**3,015,753,500**		**3,222,155,400**
FUND SOURCES				
General Fund	2,587,174,700	2,951,332,700		3,170,986,600
Other Appropriated Funds				
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
SUBTOTAL - Other Appropriated Funds	73,285,700	64,420,800		51,168,800
SUBTOTAL - Appropriated Funds	**2,660,460,400**	**3,015,753,500**		**3,222,155,400**
Other Non-Appropriated Funds	334,834,800	335,319,800		354,689,700
Federal Funds	637,532,100	753,005,600		753,005,600
TOTAL - ALL SOURCES	3,632,827,300	4,104,078,900		4,329,850,700

CHANGE IN FUNDING SUMMARY

	FY 2004 to FY 2005 JLBC	
	$ Change	% Change
General Fund	219,653,900	7.4%
Other Appropriated Funds	(13,252,000)	(20.6%)
Total Appropriated Funds	206,401,900	6.8%
Non Appropriated Funds	19,369,900	1.8%
Total - All Sources	225,771,800	5.5%

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 Appropriation	FY 2003 Actual	FY 2004 Appropriation	FY 2005 Recommend.
• % of students tested who perform at or above the national norm on the Stanford 9 test	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 9th 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
• % of students in Grades 3, 5 and 8 meeting or exceeding state academic requirements in math and language arts (NEW)		NA		Baseline +2
• % of students in Grades 10, 11 and 12 meeting state academic requirements in reading, writing and math (NEW)		NA		Baseline +1
• % of students tested				
--Stanford 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.

RECOMMENDED CHANGES FROM FY 2004

BASIC STATE AID

The JLBC recommends $2,834,112,600 for Basic State Aid in FY 2005. This amount includes $2,787,603,500 from the General Fund and $46,509,100 from the Permanent State School Fund in FY 2005. These totals do not include $66,957,200 in "additional school day" funding from Proposition 301 that would be allocated through Basic State Aid in FY 2005 because those monies are non-appropriated. The recommended Basic State Aid total includes $191,293,800 in "rollover" funding that has already been appropriated for FY 2005 by the Education ORB for FY 2004 (Laws 2003, Chapter 264). Those monies therefore will not appear in the General Appropriation Act for FY 2005.

Table 1: Basic State Aid Summary

	General Fund	Permanent State School Fund	Prop 301 Sales Tax	Total
Basic State Aid from FY 2004	$2,584,146,700	$ 59,761,100	$ 48,727,700	$2,692,635,500
Changes for FY 2005:				
FY 2004 Base Adjustment	25,800,600	(1,722,700)		24,077,900
Enrollment Growth	161,847,000			161,847,000
2% Inflator	76,289,500			76,289,500
Net Assessed Value (NAV) Growth	(102,374,200)			(102,374,200)
Endowment Earnings	11,529,300	(11,529,300)		0
Truth in Taxation	30,085,100			30,085,100
Additional School Day			18,229,500	18,229,500
DOC, DJC and Miscellaneous	279,500			279,500
Subtotal	203,456,800	(13,252,000)	18,229,500	208,434,300
Total - Cost after Formula Changes	$2,787,603,500 1/	$ 46,509,100 1/	$ 66,957,200	$2,901,069,800

1/ Represents appropriated Basic State Aid Funds. Proposition 301 is not appropriated.

The recommended $2,834,112,600 total includes a General Fund increase of $203,456,800 and a Permanent State School Fund decrease of $(13,252,000). Components of these recommended changes are described in detail after the overview of Arizona's K-12 equalization funding formula that appears below.

Formula Overview

K-12 equalization 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 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. 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 the one 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 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 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 tax levies.

Total recommended funding for Basic State Aid for FY 2005 is summarized in *Table 1*, including estimated changes from FY 2004. The $2,901,069,800 recommended total would include $2,415,345,300 for school districts, $12,724,500 for district-sponsored charter schools and $473,000,000 for state board-sponsored charter schools.

Major Changes to Basic State Aid

FY 2004 Base Adjustment GF $25,800,600
OF (1,722,700)

The JLBC recommends an increase of $25,800,600 from the General Fund and a decrease of $(1,722,700) from the Permanent State School Fund ("Endowment Earnings") in order to adjust the base budget for the program for FY 2004 to reflect current estimates. The $25,800,600 General Fund total would include an estimated $9,000,000 for revised enrollment growth data from FY 2003, $4,577,900 for revised enrollment growth estimates for FY 2004, $10,500,000 for lower than projected "local share" tax collections for FY 2004 and $1,722,700 for lower than projected Endowment Earnings for FY 2004. The recommended $(1,722,700) base adjustment for the Permanent State School Fund is based on current data from the State Treasurer and State Land Department (the 2 sources of monies for Endowment Earnings) and would be offset by the $1,722,700 General Fund increase cited above.

The recommended $25,800,600 General Fund total is subject to considerable change and will be updated when additional data on K-12 enrollment growth for the current year become available. Actual Basic State Aid costs for FY 2004, however, will not be known until 100-day Average Daily Membership (ADM) counts for the current year become available, and that is not expected to be occur until at least April 2004.

Enrollment Growth GF 161,847,000

The JLBC recommends an increase of $161,847,000 from the General Fund for enrollment growth for FY 2005. This total consists of approximately $103,764,900 for ADM growth in school districts and $58,082,100 for ADM growth in State Board-sponsored charter schools. These estimates are based on ADM projections shown in *Tables 2 & 3.*

Table 2 shows that we currently project a statewide total ADM count in FY 2005 of 972,337 for school districts and charter schools combined. This would be an increase of 33,030 ADM pupils (3.5%) above our current estimate for FY 2004. These estimates are subject to substantial revision once ADM counts for FY 2003 become finalized and after initial 100-day ADM counts for FY 2004 become available.

JTED's — The 3.5% ADM growth estimate for FY 2005 assumes that the current cap on establishing new Joint Technology Education Districts (JTED's) or expanding existing JTED's would be extended through FY 2005. The current cap was established by Laws 2002, Chapter 330 and will expire at the end of FY 2004 if not extended. The JLBC recommends extending the cap through FY 2005 *(see JLBC Recommended Statutory Changes).*

Rapid Decline — The recommended $161,847,000 increase for Enrollment Growth likewise assumes that the Rapid Decline formula in A.R.S. § 15-942 will be funded at 50% of the full formula cost for FY 2005. Section 40 of the Education ORB for FY 2004 (Laws 2003, Chapter 264) required Rapid Decline to be funded at the 50% level for FY 2004, but was vetoed. The JLBC recommends including language similar to Section 40 in the FY 2005 Education ORB in order to require 50% funding of Rapid Decline for FY 2005, which would continue the intended policy from FY 2004 *(see JLBC Recommended Statutory Changes).*

Table 2

Average Daily Membership (ADM)
Students by Academic Year

Year	Districts (including Charters)	State Charters	Total	Change	% Change
2002	821,161	57,646	878,807	28,177	3.3%
2003 est	841,623	66,231	907,854	29,047	3.3%
2004 est	862,566	76,741	939,307	31,452	3.5%
2005 est	884,853	87,484	972,337	33,030	3.5%

Table 3 shows separate ADM estimates for school districts, district-sponsored charter schools and state board sponsored charter schools.

Table 3

ADM Breakout for Academic Years 2003 through 2005

	2003 est	2004 est	2005 est
School Districts	838,290	859,680	882,255
Dist. Sponsored Charters	3,333	2,886	2,597
St. Board Spon'd Charters	66,231	76,741	87,485
Total	907,854	939,307	972,337

2% Inflation Adjustment GF 76,289,500

The JLBC recommends an increase of $76,289,500 from the General Fund for a 2% inflation adjustment in FY 2005. This includes a 2% increase in the "base level" in A.R.S. § 15-901.B2, the charter school "Additional Assistance" funding levels in A.R.S. § 15-185.B4, and transportation funding levels per route mile in A.R.S. § 15-945.A5.

A.R.S. § 901.01 (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 by 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 lower than the FY 2002 base level ($2,687.32).

The recommended 2% increase would result in base level of $2,893.18 per pupil for FY 2005. The 2% increase in transportation route mile funding would provide $1.71 or $2.11 per route mile for FY 2005, depending on average

per pupil route miles for a district (A.R.S. § 15-945.A5). The 2% inflation adjustment also applies to special education vouchers, as described in the "Special Education Fund" narrative below. The total estimated cost for the 2% inflation adjustment for Basic State Aid and special education vouchers combined for FY 2005 is $76,890,800.

Net Assessed Valuation (NAV) Growth **GF (102,374,200)**

The JLBC recommends a decrease of $(102,374,200) from the General Fund in FY 2005 due to growth in statewide property values. The recommended $(102,374,200) decrease assumes that the combined Net Assessed Value (NAV) of all properties statewide will grow by 7% for FY 2005. Growth in statewide NAV increases "local share" funding for Basic State Aid because the K-12 "Qualifying Tax Rate" (QTR) and the K-12 "County Equalization" tax rate generate more local funding when property values rise. This reduces the amount of K-12 equalization formula funding that must be provided by the state General Fund.

The estimated $(102,374,200) savings for NAV growth does not include offsets for higher "Truth in Taxation" and Additional State Aid costs that occur when statewide NAV values increase. Those increases partially offset state savings due to NAV growth and are discussed separately below.

Endowment Earnings **GF 11,529,300**
OF (11,529,300)

The JLBC recommends an increase of $11,529,300 from the General Fund and a decrease of $(11,529,300) from the Permanent State School Fund for K-12 Endowment Earnings in FY 2005 based on our endowment earnings projections for FY 2005. Those projections indicate that endowment earnings available for Basic State Aid will increase by $12,224,600 in FY 2005 to a total of $70,263,000 (not including $2,000,000 in Endowment Earnings that will continue to be used for debt service on Qualified Zone Academy bonds pursuant to A.R.S. § 15-2081). Approximately $23,753,900 of the $70,263,000 total, however, will be used for the first time in FY 2005 to pay debt service on $247,135,000 in State School Trust Revenue Bonds issued by the School Facilities Board to help pay for Deficiencies Correction. As a result, the net amount of Endowment Earnings available to help fund Basic State Aid will decrease by an estimated $(11,529,300) [$12,224,600 earnings increase minus $(23,753,900) debt service costs = $(11,529,300) net decrease]. The recommendation includes a General Fund increase of $11,529,300 because state monies must be used to replace any loss of Endowment Earnings monies for Basic State Aid on a dollar for dollar basis.

For FY 2004, we currently estimate that $58,038,400 from Endowment Earnings will be available to help fund Basic State Aid. The recommended $(11,529,300) decrease would reduce this amount to $46,509,100 for FY 2005 ($58,038,400 minus $11,529,300 = $46,509,100).

A.R.S. § 37-521, as amended by Proposition 301, dedicates all growth in expendable endowment earnings above the FY 2001 level ($72,263,000) to the Education 2000 Classroom Site Fund. We currently estimate that total Endowment Earnings for FY 2005 will equal $79,143,400, which would be $6,880,400 above the Proposition 301 threshold of $72,263,000. As a result, we currently estimate that the Classroom Site Fund will receive $6,880,400 from Endowment Earnings for FY 2005.

Endowment Earnings consist of interest on securities held in the Permanent State School Fund, receipts from leases of state lands and "mortgage" interest paid to the State Land Department by purchasers of state trust land who finance those purchases through the State Land Department. "Principal" on those purchases is not considered expendable and is instead deposited into the Permanent State School Fund for investment by the State Treasurer.

"Truth in Taxation" **GF 30,085,100**

The JLBC recommends an increase of $30,085,100 from the General Fund for "Truth in Taxation" (TNT) pursuant to A.R.S. § 41-1276, which requires a lowering of the K-12 QTR and County Equalization tax rates each year in order to offset growth in local property values. This increases Basic State Aid costs because it reduces the amount of "local share" monies that are generated by the QTR and County Equalization tax rates and the state must make up the difference.

Data on local property values that are needed in order to precisely compute TNT reductions for FY 2005 will not be available until mid February 2004. Based on past patterns regarding TNT costs at differing NAV growth levels and assuming NAV growth of 7% for all properties and 2.2% for existing properties for FY 2005, however, we currently estimate TNT costs for FY 2005 at $30,085,100. This would require the K-12 QTR to be reduced from $3.9166 currently to $3.8384 in FY 2005 and the County Equalization tax rate to be reduced from $0.4717 currently to $0.4623 in FY 2005 (all rates are per $100 of NAV) *(see Table 4).*

Table 4
Estimated TNT Tax Rates

Tax Rate	FY 2004	FY 2005
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	$1.9583	$1.9192
• Unified districts and elementary districts not located within a high school district	$3.9166	$3.8384
County Equalization Tax Rate (all districts)	$0.4717	$0.4623

A.R.S. § 41-1276 allows the Legislature to adopt QTR and County Equalization tax rates that exceed computed TNT rates. This must be done, however, through a concurrent

resolution approved by an affirmative roll call vote of 2/3rds of the members of both House and Senate. This vote must be passed before the Legislature enacts the General Appropriation Act for the fiscal year affected, and must be preceded by a public hearing to discuss the issue. The JLBC Staff is required by February 15th of each year to report the computed truth in taxation rates for the following fiscal year to the Joint Legislative Tax Committee and the chairmen of the House and Senate Appropriations Committees.

State Juvenile Education System GF (145,800)
The JLBC recommends a decrease of $(145,800) from the General Fund for Department of Juvenile Corrections (DJC) Basic State Aid funding for FY 2005 based on current DJC estimates. This would provide DJC with $2,503,200 in total Basic State Aid funding for FY 2005.

Other Adjustments GF 425,300
The JLBC recommends an increase of $425,300 from the General Fund for changes in "other adjustments" that affect the cost of Basic State Aid. The recommended $425,300 increase includes $861,100 for financial and compliance audits, $(589,300) for tuition loss, $129,900 for unorganized territory ADM and transportation, $72,700 for county detention center education and $(49,100) for county jail education.

K-12 Rollover GF 0
The JLBC recommends no funding change for the K-12 Rollover for FY 2005. The original K-12 rollover deferred $191,300,000 in Basic State Aid costs from June 2003 (the last month of FY 2003) until July 2003 (the first month of FY 2004). A total of $191,300,000 from the General Fund was added to the Basic State Aid budget for FY 2004 to pay for this deferred obligation. The rollover was continued as $191,300,000 of FY 2004 Basic State Aid was deferred to FY 2005. The JLBC recommends continuing the rollover by deferring $191,000,000 of FY 2005 Basic State Aid funding to FY 2006.

Continuation of the 1 month deferred payment will require statutory authorization. In addition, the FY 2005 budget would include an "advance appropriation" of $191,300,000 for FY 2006 to recognize the state's deferred obligation *(see JLBC Recommended Statutory Changes).*

In addition, the General Appropriation Act for FY 2004 did not exclude $191,300,000 in Basic State Aid funding that was "advance appropriated" for FY 2004 by Section 49 of Laws 2002, Chapter 330 (the Education ORB for FY 2004), which caused the rollover to be "double funded." This will need to be corrected during the upcoming legislative session either by amending the General Appropriation Act for FY 2004 or by repealing the "advance appropriation" in Laws 2002, Chapter 330 *(see "JLBC Recommended Statutory Changes).*

Additional School Day GF 0
The JLBC recommends no appropriated funding change for Additional School Days for FY 2005. This is because A.R.S. § 42-5029(E5) already allocates Proposition 301 monies for additional school days. Proposition 301 allocated $48,727,700 for additional school days in FY 2004 and increases that amount by $18,229,500 in FY 2005, providing $66,957,200 in total additional school day funding for FY 2005 *(see Table 1)*. The $18,229,500 increase for FY 2005 will be used to add 1 additional day to the school year during FY 2005, which will result in a total school year of 189 days. The $66,957,200 non-appropriated total for additional school days for FY 2005 will be disbursed to school districts through the Basic State Aid formula as part of the overall "base level" increase for the year.

ADDITIONAL STATE AID
("Homeowner's Rebate)

The JLBC recommends $287,990,600 from the General Fund for Additional State Aid for FY 2005. This amount would fund the adjustments described below.

Additional State Aid is authorized by A.R.S. § 15-972, which requires the state to pay 35% of each homeowner's school district primary property taxes—up to a maximum of $500 per person. The program also pays for any portion of a homeowner's primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home. This second feature is referred to as the "1% cap" and is required by Article IX, Section 18 of the State Constitution, which limits Class 3 primary property taxes to no more than 1% of a home's full cash value. All Class 3 properties are eligible for both "homeowner's rebate" and "1% cap" funding.

Net Assessed Value Growth GF 14,722,100
The JLBC recommends an increase of $14,722,100 increase from the General Fund for Net Assessed Value (NAV) growth in FY 2005. The recommended $14,722,100 increase includes a $(3,598,800) base adjustment for lower than projected Additional State Aid costs in FY 2004 and a projected $18,320,900 increase due to assumed 7% NAV growth in FY 2005. The recommended $14,722,100 increase assumes that current "caps" on school district expenditures for desegregation and excess utilities would be extended through FY 2005 *(see JLBC Recommended Statutory Changes)*.

Continue Caps on Desegregation and Excess Utilities Budgets — Laws 2002, Chapter 68 capped desegregation budgets at the FY 2002 level through FY 2004, which kept desegregation-related Additional State Aid costs from increasing in FY 2003 and FY 2004. Based on trendline growth in desegregation budgets prior to the current cap, we roughly estimate that Additional State Aid costs for desegregation programs would increase by $15,000,000 in FY 2005 if the current expenditure cap were allowed to expire. Desegregation funding is authorized by A.R.S. § 15-910(G), which allows school districts to increase their local "primary" property tax collections in order to pay for desegregation programs. Part of local desegregation costs are shifted to the state because Additional State Aid is

based on primary property taxes and desegregation taxes are considered to be "primary" (versus "secondary") taxes.

Laws 2002, Chapter 330 capped "excess utilities" budgets at the FY 2002 level through FY 2004. Excess Utilities funding is authorized by A.R.S. § 15-910(A), which allows school districts to increase their local "primary" property tax collections in order to pay for excess utilities. As with desegregation programs, part of the cost of excess utilities is shifted to the state because Additional State Aid is paid on total primary property taxes for schools, including excess utilities taxes. Based on growth rates observed for excess utilities prior to the current cap, we roughly estimate that Additional State Aid costs for excess utilities would increase by $5,000,000 in FY 2005 if the current cap were allowed to expire.

OTHER STATUTORY FORMULA PROGRAMS

Assistance to School Districts for Children of State Employees

The JLBC recommends $99,500 from the General Fund for Assistance to School Districts for Children of State Employees in FY 2005. This amount is unchanged from FY 2004. The program provides supplemental 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 JLBC recommends $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 JLBC recommends $31,092,600 from the General Fund to the Special Education Voucher Fund for FY 2005. This amount would fund the following adjustments:

Enrollment Growth GF 873,700

The JLBC recommends an increase of $873,700 from the General Fund for estimated 5% overall growth in the number of pupils requiring special education vouchers.

2% Inflation Adjustment GF 601,300

The JLBC recommends an increase of $601,300 from the General Fund in order to fund a 2% increase in the "base level" for special education vouchers, as required by Proposition 301. The "base level" is defined in A.R.S. § 15-901.01 and is the same for both Basic State Aid and special education vouchers. As noted in the Basic State Aid narrative, the total estimated cost of the 2% inflator for FY 2005 for Basic State Aid and special education voucher combined is $76,890,800.

Special education vouchers fund educational costs for 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]. They also fund 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]. The line item includes 1 FTE Position.

NON-FORMULA PROGRAMS

Adult Education Assistance

The JLBC recommends $4,438,200 from the General Fund for Adult Education Assistance in FY 2005. This amount is unchanged from FY 2004. The line item funds immigrant education and adult basic education programs that receive funding through the department pursuant to A.R.S. § 15-234. The line item includes 4 FTE Positions.

AIMS Intervention/Dropout Prevention

The JLBC recommends $550,000 from the General Fund for AIMS Intervention/Dropout Prevention 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 JLBC recommends $796,300 from the General Fund for Chemical Abuse in FY 2005. This amount is unchanged from FY 2004. The line funds chemical abuse prevention programs for students in grades K-12 pursuant to A.R.S. § 15-712. The line item includes 3 FTE Positions.

English Learner Grants

The JLBC recommends $15,310,000 from the General Fund for English Learner Grants in FY 2005. This amount 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, as appropriated by Laws 2001, Chapter 9 (the "Flores bill"). Because these monies were "advance appropriated" by

Chapter 9, they will not appear in the General Appropriation Act. FY 2005 is the final year for which monies for this program are "advance appropriated" by Chapter 9.

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

Family Literacy
The JLBC recommends $1,002,100 from the General Fund for Family Literacy in FY 2005. This amount is unchanged from FY 2004. 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. The line item includes 1 FTE Position.

Gifted Support
The JLBC recommends $1,301,400 from the General Fund for Gifted Support in FY 2005. This amount is unchanged from FY 2004. The line item 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. The line item includes 2 FTE Positions.

Optional Performance Incentive Programs
The JLBC recommends $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 by 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 JLBC recommends $1,000,000 from the General Fund for Parental Choice for Reading Success 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 JLBC recommends $10,000 from the General Fund for Residential Placement in FY 2005. This amount is unchanged from FY 2004. The recommended 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 JLBC recommends $4,678,100 for School Accountability in FY 2005. This amount includes $18,400 from the General Fund and $4,659,700 from the appropriated portion of the Proposition 301 Fund. These amounts are unchanged from FY 2004. The purpose of the School Accountability program is to promote improved student achievement and school accountability pursuant to A.R.S. § 15-241. The line item includes 14 FTE Positions.

School Report Cards
The JLBC recommends $439,100 from the General Fund for School Reports Cards in FY 2005. This amount is unchanged from FY 2004. The program is authorized by A.R.S. § 15-746, which requires schools to supply annual information to the department regarding school goals and student achievement. The department compiles and publishes that information each year in the form of "school report cards." The line item includes 3 FTE Positions.

School Safety Program
The JLBC recommends $6,700,700 from the General Fund for the School Safety Program for FY 2005. This amount is unchanged from FY 2004. The program also receives $7,800,000 in Proposition 301 sales tax monies each year that is automatically allocated by A.R.S. § 42-5029(E6). The program places peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154. The line item includes 3 FTE Positions.

Small Pass-Through Programs
The JLBC recommends $581,600 from the General Fund for Small Pass-Through Programs in FY 2005. This amount is unchanged from FY 2004. The $581,600 total 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 JLBC recommends $19,408,600 from the General Fund for the State Block Grant for Early Childhood Education in FY 2005. This amount is unchanged from FY 2004. The line item 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. The line item includes 4.7 FTE Positions.

State Block Grant for Vocational Education
The JLBC recommends $11,154,100 from the General Fund for the State Block Grant for Vocational Education program in FY 2005. This amount is unchanged from FY 2004. The line item provides block grants to school districts and charter schools that have career and technical education programs. The line item includes 32 FTE Positions.

Vocational Education Extended Year
The JLBC recommends $600,000 from the General Fund for the Vocational Education Extended Year program in FY 2005. This amount is unchanged from FY 2004. The

program provides funding for students to attend extended year or summer school courses in joint technological education districts pursuant to A.R.S. § 15-783.02.

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JLBC RECOMMENDED FORMAT — Special Line Items by Program

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

Basic State Aid – 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 2005.

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.

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.

Adult Education – The appropriated amount is for classes in adult basic education, general education development and citizenship on a statewide basis.

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.

Small Pass-Through Programs – 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 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 Vocation Education – 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.

JLBC RECOMMENDED STATUTORY CHANGES

The JLBC recommends the following statutory changes:

1) Defer the June 2005 Basic State Aid payment until July 2005.
2) Correct for a "double appropriation" of Basic State Aid rollover monies for FY 2004.
3) Increase the formula funding "base level" in A.R.S. § 15-901(B2) to $2,893.18.
4) Increase by 2% the transportation funding rates per route mile in A.R.S. § 15-945 and the per pupil funding rates for charter school "Additional Assistance" in A.R.S. § 15-185(B4).
5) Extend through FY 2005 the "cap" on desegregation expenditures established by Laws 2002, Chapter 68.
6) Extend through FY 2005 the "cap" on excess utilities expenditures established by Laws 2002, Chapter 330.
7) Extend through FY 2005 the "cap" on establishing new Joint Technology Education Districts (JTED's) or expanding existing JTED's that was instituted by Laws 2002, Chapter 330.
8) Extend through FY 2005 session law language in Laws 2003, Chapter 364 that allows a shorter than 36-week school year using longer days.
9) Fund the Rapid Decline formula in A.R.S. § 15-942 at 50% for FY 2005.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2004 Supplemental

As of December 2003, the JLBC Staff estimates that the department may need up to $24,631,700 in supplemental funding from the General Fund for FY 2004. This estimate includes $9,000,000 to make up for an underfunding of Basic State Aid during FY 2003, $4,577,900 for higher than projected enrollment growth in FY 2004, $10,500,000 for lower than projected "local share" funding in FY 2004, $1,722,700 for lower than projected Endowment Earnings for FY 2004, $2,429,900 for unfunded Rapid Decline for FY 2004 and $(3,598,800) for lower than projected costs for the Homeowner's Rebate for FY 2004. The supplemental estimate includes $2,429,900 for Rapid Decline because Section 40 of the Education ORB for FY 2004 would have funded Rapid Decline at 50% for the current year, but was vetoed

without additional funding being provided. The General Fund supplemental estimate of $24,673,700 is subject to considerable change once the ADM count for FY 2003 becomes finalized and after preliminary 100-day ADM counts for FY 2004 become available.

The projected $24,673,700 General Fund supplemental would permit a $(1,722,700) reduction in the FY 2004 appropriation for Endowment Earnings from the Permanent State School Fund, which would be required due to a revenue shortfall in the Fund under revised estimates.

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SUMMARY OF FUNDS - SEE AGENCY SUMMARY