	FY 2004 Actual	FY 2005 Estimate	FY 2006 Approved
OPERATING BUDGET			
Full Time Equivalent Positions	67.7	67.7	69.7[1/]
SPECIAL LINE ITEMS			
Statutory Formula Programs			
Basic State Aid Entitlement	2,648,072,800[2/]	2,802,264,000[2/]	2,949,069,300[2/-5/]
Additional State Aid to Schools	269,669,700	296,669,700	297,213,200
Assistance to School Districts for Children of State Employees	82,100	99,500	99,500
Certificates of Educational Convenience	0	269,900	269,900
Special Education Fund	29,617,600	31,093,900	33,130,500
Subtotal - Statutory Formula Programs	2,947,442,200	3,130,397,000	3,279,782,400
Non-Formula Programs			
Adult Education Assistance	4,438,100	4,443,800	4,451,000[6/7/8/]
AIMS Intervention; Dropout Prevention	550,000	550,000	5,550,000
Chemical Abuse	770,600	800,500	806,200
English Learner Grants	14,136,400	15,310,000	0
Extended School Year	460,600	500,000	500,000
Family Literacy	990,100	1,003,400	1,004,900
Ch. 329 Full-Day Kindergarten	0	21,000,000	38,050,000
Gifted Support	1,284,700	1,304,200	1,308,300
Hayden-Winkelman	0	3,215,000	0
Optional Performance Incentive Programs	120,000	120,000	120,000
Parental Choice for Reading Success	974,000	1,000,000	1,000,000
Residential Placement	10,000	10,000	10,000
School Accountability	2,046,000	4,698,100	4,698,100
School Report Cards	408,500	443,300	449,400
School Safety Program	5,324,400	6,704,900	6,709,700
Small Pass-Through Programs	556,400	581,600	581,600[9/]
State Block Grant - Early Childhood Education	19,334,100	19,415,200	19,424,600
State Block Grant - Vocational Education	11,154,100	11,199,100	11,256,800[10/]
Vocational Education Extended Year	600,000	600,000	600,000
Subtotal - Non-Formula Programs	63,158,000	92,899,100	96,520,600
PROGRAM TOTAL	**3,010,600,200**	**3,223,296,100**	**3,376,303,000**[11/]
FUND SOURCES			
General Fund	2,948,811,500	3,168,912,300	3,328,420,300
Other Appropriated Funds			
Permanent State School Fund	59,761,100	46,509,100	43,223,000
Proposition 301 Fund	2,027,600	4,659,700	4,659,700
School Improvement Revenue Bond Debt Service Fund	0	3,215,000	0
SUBTOTAL - Other Appropriated Funds	61,788,700	54,383,800	47,882,700
SUBTOTAL - Appropriated Funds	**3,010,600,200**	**3,223,296,100**	**3,376,303,000**
Other Non-Appropriated Funds	374,697,400	456,166,900	615,013,900
Federal Funds	628,086,400	678,814,200	717,425,000
TOTAL - ALL SOURCES	4,013,384,000	4,358,277,200	4,708,741,900

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") and 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 2006 is from Laws 2004, Chapter 278.

3/ 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 $43,223,000 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 2006. (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 Actual	FY 2004 Actual	FY 2006 Approved
• % of students tested who perform at or above the national norm on the norm-referenced test (grade 2)			
-- reading	44	46	48
-- math	51	53	55
• % of students tested who perform at or above the national norm on the norm-referenced test (grade 9)			
-- reading	36	35	37
-- math	58	57	59
• % of schools with at least 75% of students meeting or exceeding standards in:			
-- reading	26	21	27
-- writing	26	33	37
-- math	14	12	20
• % of Arizona high school students who enter 9th grade and graduate within 4 years	70.8	72.7	75
• % of students in grade 3 meeting or exceeding state academic standards in:			
-- reading	76	71	80
-- writing	77	80	82
-- math	66	63	70
• % of students in grade 5 meeting or exceeding state academic standards in:			
-- reading	57	51	66
-- writing	55	62	68
-- math	49	47	60
• % of students in grade 8 meeting or exceeding state academic standards in:			
-- reading	54	49	62
-- writing	45	58	66
-- math	21	26	36

4/ 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)

5/ 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)

6/ The appropriated amount is for classes in adult basic education, general education development and citizenship on a statewide basis. (General Appropriation Act footnote)

7/ 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)

8/ The department shall give persons under 21 years of age priority in gaining access to services pertaining to general education development testing. (General Appropriation Act footnote)

9/ 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)

10/ 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)

11/ General Appropriation Act funds are appropriated as Special Line Items by Program.

PERFORMANCE MEASURES (Cont'd)	FY 2003 Actual	FY 2004 Actual	FY 2006 Approved
• % of students in grade 12 meeting or exceeding state academic standards in:			
-- reading	31	29	90
-- writing	46	39	90
-- math	14	11	90
• % of students tested:			
-- Norm-referenced test (grades 2 & 9)	95	93	96
- AIMS	95	96	97
• % of Arizona schools receiving an underperforming label	12	7	5

Comments: (1) A much higher than trend line percentage (90%) is assumed for "% of students in grade 12 meeting or exceeding state academic standards" for FY 2006 because students will have to meet state academic requirements in math, reading and writing in order to graduate starting that year. For FY 2004, the percent of 12th Grade pupils passing AIMS equaled 29% for reading, 39% for writing and 11% for math (see table). For the Class of 2006 (not in table), the department currently (as of June 2005) estimates that 76% passed AIMS reading, 78% passed AIMS writing and 70% passed AIMS math upon completion of Spring 2005 retesting (out of an estimated 63,500 high school juniors in Arizona public schools at the end of FY 2005.) AIMS retesting for this cohort will again occur during fall 2005 and spring 2006. Historically, 3rd Graders have performed best on AIMS, followed by pupils in 5th Grade, 8th Grade and high school, respectively. The percentage of pupils passing AIMS math for FY 2004, for example, equaled 63% for Grade 3, 47% for Grade 5, 26% for Grade 8, and 11% for high school seniors. (2) FY 2003 was the first year for which schools received an "underperforming" label, which was determined based on changes in their students' achievement test scores (3-year average), elementary school attendance rates and high school dropout and graduation rates.

Special Line Items/Statutory Formula Programs

BASIC STATE AID

Basic State Aid Entitlement

The budget includes $2,949,069,300 for Basic State Aid in FY 2006. This amount consists of $2,905,846,300 from the General Fund and $43,223,000 from the Permanent State School Fund. These totals do not include $86,280,500 in "additional school day" funding from Proposition 301 that would be allocated through Basic State Aid in FY 2006 because those monies are non-appropriated. The approved Basic State Aid total includes $191,293,800 in "rollover" funding that has already been appropriated for FY 2006 by the Education Budget Reconciliation Bill for FY 2005 (Laws 2004, Chapter 278). Those monies therefore do not appear in the General Appropriation Act for FY 2006.

Table 1 **FY 2006 Basic State Aid Summary**

	General Fund	Permanent State School Fund	Prop 301 Sales Tax	Local Property Taxes	Total
Basic State Aid from FY 2005	$2,755,754,900 1/	$ 46,509,100	$ 66,957,200	$1,711,343,800	$4,580,565,000
Changes for FY 2006:					
FY 2005 Base Adjustment	(25,000,000)				(25,000,000)
Enrollment Growth	136,487,300				136,487,300
2.0% Inflator	78,730,800				78,730,800
1.2% Additional Inflator	45,000,000				45,000,000
Net Assessed Valuation Growth	(122,492,800)			122,492,800	0
Truth in Taxation	34,080,000			(34,080,000)	0
Endowment Earnings	3,286,100	(3,286,100)			0
Rollover – Remain at $191 M	0				0
Additional School Day			19,323,300		19,323,300
Miscellaneous				(3,870,100)	(3,870,100)
Total – Cost after Formula Changes	**$2,905,846,300** 2/	**$ 43,223,000** 2/	**$ 86,280,500**	**$1,795,886,500**	**$4,831,236,300**

1/ Includes $191,293,800 appropriated for the "K-12 rollover," which is continued for FY 2006 by Laws 2004, Chapter 278.
2/ Represents appropriated Basic State Aid Funds. Proposition 301 monies for Basic State Aid and local property tax monies are not appropriated.

The approved $2,949,069,300 total includes a General Fund increase of $150,091,400 and a Permanent State School Fund decrease of $(3,286,100). 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 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, which enables 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 either M&O or capital expenditures. Soft Capital funds, however, 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 the equalization base, the district receives Basic State Aid funding to make up the difference. A school district's actual property tax rate can be less than the QTR, particularly if its tax base is strong enough to fund its entire equalization base with local monies. Conversely, a district's actual tax rate can be higher than the QTR if it is allowed to budget for items outside of the "Revenue Control Limit" (RCL) under A.R.S. § 15-910, or if it participates in a Career Ladder program pursuant to A.R.S. § 15-918 or an Optional Performance Incentive Program pursuant to A.R.S. § 15-919.

Basic State Aid is also provided to charter schools, which are public schools that 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 does not include separate funding for CORL, Soft Capital or Transportation. Instead it consists only of BSL funding and "Additional Assistance." BSL funding for charter schools is determined under the same 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 2006 equal $1,330.05 per pupil for Grades K-8 and $1,550.14 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

Base Adjustment – The approved amount includes a decrease of $(25,000,000) from the General Fund in FY 2006 for lower than expected Average Daily Membership (ADM) growth for FY 2005. This decrease is based on estimates received from the department during March 2005, which factored in 100th day ADM counts from charter schools for FY 2005, 40th day ADM counts from school districts from FY 2005 (100th day ADM counts were not yet available) and prior year (FY 2004) 100th day ADM counts for school districts. All of those counts affected the cost of Basic State Aid in FY 2005 because the Basic State Aid formula is based partly on current year and partly on prior year ADM counts.

The FY 2005 budget originally assumed ADM growth of 3.5% for FY 2004 and 3.2% for FY 2005. Final FY 2004 ADM data indicate that statewide enrollment increased by 3.0% versus 3.5% in FY 2003 *(see Table 2)*. Final ADM data for FY 2005 will not be available until the Superintendent's Annual Report for that year is published in January 2006.

Enrollment Growth – The approved amount includes an increase of $136,487,300 from the General Fund for enrollment growth for FY 2006. This total consists of approximately $99,635,700 for ADM growth in school districts and $36,851,600 for ADM growth in State Board-sponsored charter schools.

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

The approved FY 2006 amount assumes statewide ADM growth of approximately 2.9% for academic year 2004-2005 and an additional 2.9% increase for academic year 2005-2006 *(see Table 2)*. ADM counts from both years will affect the cost of Basic State Aid in FY 2006, since (as noted above) both prior year and current year ADM counts affect costs under the formula.

The budgeted ADM breakdown for academic year 2005-2006 equals 899,066 for district non-charter pupils, 942 for district charter pupils and 88,455 for state board charter pupils—for a total ADM count of 988,463 *(see Table 2)*.

Table 2

Average Daily Membership (ADM)
Students by Academic Year

	Districts (including Charters) *	State Charters	Total	Change	% Change
2003	843,386	62,976	906,362	30,995	3.5%
2004	860,496	73,238	933,734	27,372	3.0%
2005 est	880,011	80,928	960,939	27,305	2.9%
2006 est	900,008	88,455	988,463	27,524	2.9%

* Includes 3,333 charter school ADM for FY 2004, 1,473 for FY 2005, 1,178 for FY 2005 and 942 for FY 2006.

2% Inflation Adjustment – The approved amount includes an increase of $78,730,800 from the General Fund in FY 2006 for a 2% inflation adjustment. This includes a 2% increase in the "base level" in A.R.S. § 15-901(B)(2), the charter school "Additional Assistance" funding levels in A.R.S. § 15-185(B)(4), and transportation funding levels per route mile in A.R.S. § 15-945(A)(5).

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 2% increase plus (as described below) a 0.5% increase for an additional school day and a 1.2% increase for additional inflation funding will result in $3,001.00 base level per pupil for FY 2006. The 2% increase in transportation route mile funding will provide $1.74 or $2.15 per route mile for FY 2006, 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 2006 is $79,393,400.

Additional Inflation Funding – The approved amount includes an increase of $45,000,000 from the General Fund in FY 2006 for additional inflation funding. This amount equates to an additional 1.2% base level increase above the 2% increase required by A.R.S. § 15-901.01. As with the 2% increase, funding for the additional 1.2% will be disbursed to school districts and charter schools as part of their overall Basic State Aid funding.

Growth in School District Assessed Valuation – The approved amount includes a decrease of $(122,492,800) from the General Fund in FY 2006 due to growth in statewide property values. The $(122,492,800) decrease assumes that the combined Net Assessed Value (NAV) of all properties statewide will grow by 8% for FY 2006. 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 $(122,492,800) 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.

"Truth in Taxation" – The approved amount includes an increase of $34,080,000 from the General Fund in FY 2006 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.

As of February 25, 2005, the JLBC reported that the FY 2006 rates would be as follows: QTR = $1.81 or $3.62 (depending upon the type of school district) per $100 of NAV; County Equalization = $0.44 per $100 of NAV (all rates have been rounded to the nearest penny) *(see Table 3)*.

Table 3

Estimated TNT Tax Rates

Tax Rate	FY 2005	FY 2006
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	$1.8931	$1.8090
• Unified districts and elementary districts not located within a high school district	$3.7862	$3.6180
• County Equalization Tax Rate (all districts)	$0.4560	$0.4358

Endowment Earnings – The approved amount includes an increase of $3,286,100 from the General Fund and a decrease of $(3,286,100) from the Permanent State School Fund for K-12 Endowment Earnings in FY 2006 due to an increase in debt service costs for State School Trust

Revenue Bonds and Qualified Zone Academy Bonds (QZAB's) issued by the School Facilities Board. Pursuant to A.R.S. § 37-521(B)(1), debt service on both types of bonds is paid using K-12 endowment earning monies. The approved $3,286,100 General Fund increase consists of a $1,677,600 increase for State School Trust Revenue Bonds and a $1,608,500 increase for QZAB's.

State School Trust Revenue Bonds were issued by the School Facilities Board in FY 2004 in order to generate $246,600,000 in one-time funding for Deficiencies Correction. Debt service on the bonds for FY 2006 will be $25,431,400, which is $1,677,600 more than the debt service amount assumed in the FY 2005 appropriation.

QZAB's were issued by the School Facilities Board in FY 2003 in order to generate $20,000,000 in one-time funding for Deficiencies Correction. Debt service costs for QZAB's will be $1,608,500 for FY 2006, all of which will represent an increase above FY 2005.

The JLBC Staff currently estimates that K-12 endowment earnings for FY 2006 will equal $111,062,200, which would be an $11,930,500 increase above our current $99,131,700 estimate for FY 2005. None of this increase would be available to help fund Basic State Aid or debt service on State School Trust Revenue Bonds, however, because 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 Proposition 301 Classroom Site Fund. The entire $11,930,500 increase in expendable K-12 endowment earnings that is projected for FY 2006 therefore would be deposited into the Classroom Site Fund under current law.

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 that agency. "Principal" on those purchases is not considered expendable and is instead deposited into the Permanent State School Fund for investment by the State Treasurer.

K-12 Rollover – The approved amount includes $191,293,800 that was advance appropriated for FY 2006 by Laws 2004, Chapter 278 in order to postpone until July 1, 2005 (the 1st day of FY 2006) $191,000,000 (plus interest) in Basic State Aid funding for FY 2005 (the "rollover").

Laws 2005, Chapter 329 continues the rollover by deferring until July 1, 2006 (the 1st day of FY 2007) $191,000,000 in Basic State Aid funding for FY 2006 plus $293,800 for interest. The K-12 rollover will not be paid off permanently until "13 months" of Basic State Aid payments are appropriated for a fiscal year.

Additional School Day – In addition to the approved amount, the Basic State Aid program will receive $86,280,500 from the Proposition 301 Fund (an increase of $19,323,300) for additional school days in FY 2006 *(see Table 1)*. 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(E)(5), as established by Proposition 301.

The $86,280,500 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 $86,280,500 amount is intended to fund a 180-day school year for the first time in FY 2006 (the school year for FY 2005 was 179 days long). This is an increase of 5 school days above the 175-day school year that existed prior to Proposition 301.

Rapid Decline – The approved amount includes $2,429,800 from the General Fund for Rapid Decline for FY 2006. This amount is unchanged from FY 2005 and assumes that Rapid Decline will again be funded at 50% for the year (also no change from FY 2005).

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. Laws 2005, Chapter 329 (the K-12 Education BRB) notwithstands the formula in A.R.S. § 15-942 and requires Rapid Decline to again be funded at the 50% level for FY 2006.

JTED's – Laws 2005, Chapter 329 (the K-12 Education BRB) caps state aid for JTED's at the higher of a JTED's state aid or double its Qualifying Tax Rate (QTR) revenues for FY 2006. In addition, Laws 2005, Chapter 294 includes a number of provisions that may affect state funding to JTED's *(see "Additional Legislation" for more information.)*

ADDITIONAL STATE AID
("Homeowner's Rebate" and "1% Cap")

Additional State Aid to Schools

The budget provides $297,213,200 from the General Fund for Additional State Aid in FY 2006. The approved amount includes a decrease of $(16,851,700) from the General Fund for an FY 2005 base adjustment due to lower than expected Homeowner's Rebate and "1% cap" costs for FY 2005. It also includes an increase of $17,395,200 from the General Fund for projected growth in those costs for FY 2006 above the FY 2005 actual level. The $17,395,200 increase assumes 10.3% growth in homeowner property values statewide for FY 2006. Increases in home values typically cause property taxes paid by homeowners to rise, which entitles them to additional Homeowner's Rebate funding.

Desegregation Soft Cap
The approved amount includes no funding change for continuing a 1-year "soft cap" on school district desegregation expenditures pursuant to Laws 2005, Chapter 329. Chapter 329 prohibits a school district from increasing its desegregation expenditures other than for enrollment growth and inflation. The soft cap was initially established for 1-year (FY 2005) by Laws 1994, Chapter 278. It affects Homeowner's Rebate costs because desegregation expenditures are funded with primary property taxes and those taxes qualify for Homeowner's Rebate and 1% cap funding.

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 parcel. 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.

Laws 2005, Chapter 302 makes major changes to the Homeowner's Rebate formula starting in FY 2007. *(See "Additional Legislation" for more information.)*

OTHER STATUTORY FORMULA PROGRAMS

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 in FY 2006. This amount is unchanged from 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 2006. This amount is unchanged from FY 2005.

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 $33,130,500 and 1 FTE Position from the General Fund for special education vouchers in FY 2006.

The approved amount includes an increase of $1,900 from the General Fund in FY 2006 for statewide adjustments.

The approved amount includes an increase of $1,435,200 for enrollment growth (estimated at 4.6%) and $599,500 for a 2% increase in the "base level" for special education vouchers. 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 2006.

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].

NON-FORMULA PROGRAMS

Adult Education Assistance
The budget provides $4,451,000 and 4 FTE Positions from the General Fund for Adult Education Assistance in FY 2006.

The approved amount includes an increase of $7,200 from the General Fund in FY 2006 for statewide adjustments.

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 $5,550,000 from the General Fund for AIMS Intervention; Dropout Prevention in FY 2006.

The approved amount includes an increase of $5,000,000 from the General Fund in FY 2006 for expanded AIMS tutoring designed to increase the percent of students passing the high school AIMS test. Starting in FY 2006, high school students will have to pass that test in order to graduate, although Laws 2005, Chapter 304 (AIMS test; graduation; exceptions) requires the State Board of Education to augment a pupil's high school AIMS test scores for calendar years 2006 and 2007 if they retake the test every time it is offered, pass all required coursework, and participate in available tutoring. Chapter 304 requires

the Board to adopt rules for augmenting students' AIMS test scores by September 1, 2005 and requires the augmentation to be done only for "A's," "B's" and "C's" in required courses. Chapter 304 also requires the Board to review academic standards of at least 10 high achieving states in order to confirm or modify the passing score on the AIMS math test by January 31, 2006.

In addition, Laws 2005, Chapter 329 (the K-12 Education Budget Reconciliation Bill) amended A.R.S. § 15-241(Q) to allow monies in the Failing School Tutoring Fund to be used for AIMS tutoring. Prior to Chapter 329, those monies could only be used to tutor pupils in "underperforming" or "failing" schools (not pupils in "successful" schools who still need to pass the high school AIMS test). Chapter 329 requires the department to issue a "certificate of supplemental instruction" to pupils eligible for monies from that fund. It also requires the State Board of Education to determine application guidelines and maximum funding amounts for those certificates and to conduct a market survey each year to determine the maximum certificate amount. The Failing Schools Tutoring Fund was established by Proposition 301 and is funded with non-appropriated monies from the 0.6 cent Proposition 301 education sales tax, and does not receive an appropriation.

On a related note, the department transferred $10,000,000 in surplus Additional State Aid monies to the Achievement Testing program in December 2004 to increase funding for AIMS tutoring. Most of those monies, however, are expected to revert to the General Fund after FY 2005 because fewer students signed up to receive tutoring by the end of FY 2005 than was originally anticipated.

The AIMS Intervention; Dropout Prevention 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 $806,200 and 3 FTE Positions from the General Fund for the Chemical Abuse Prevention Program in FY 2006.

The approved amount includes an increase of $5,700 from the General Fund in FY 2006 for statewide adjustments.

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 no funding from the General Fund for English Learner Grants in FY 2006. This represents a $(15,310,000) decrease from FY 2005. H.B. 2718 (the "English Language Learners" bill from the 2005 Regular Session) appropriated an equivalent amount of funding for reconfigured English Learner costs in FY 2006, but was vetoed. *(See "Vetoed Appropriations" for more information.)*

Extended School Year
The budget provides $500,000 from the General Fund for Extended School Year in FY 2006. This amount is unchanged from FY 2005. 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 $1,004,900 and 1 FTE Position from the General Fund for Family Literacy in FY 2006.

The approved amount includes an increase of $1,500 from the General Fund in FY 2006 for statewide adjustments.

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.

Ch. 329 Full-Day Kindergarten
The budget provides $38,050,000 and 2 FTE Positions from the General Fund for Full-Day Kindergarten in FY 2006.

The approved amount includes an increase of $17,050,000 and 2 FTE Positions from the General Fund in FY 2006 for expanded Full-Day Kindergarten.

Laws 2005, Chapter 329 (the FY 2006 Education Budget Reconciliation Bill) requires the department to allocate the approved funding to schools that have at least 80% of their pupils qualifying for free or reduced price lunches under the federal school lunch program (versus 90% in FY 2005). It also allows the department to use up to $150,000 for 2 FTE Positions to administer the program, requires the department to conduct a comprehensive review of research on Full-Day Kindergarten instruction, prohibits the Legislature from considering appropriation of additional Full-Day Kindergarten monies until after the Joint Legislative Study Committee has reviewed the study, and requires pupils to be at least 5 years old by September 1 to participate in the program. As of June 2005, the department indicates that 278 schools will be eligible for state Full-Day Kindergarten funding for FY 2006, including 136 continuing schools and 142 new schools. Approximately 20,000 students are expected to be served by the program in FY 2006, which would be roughly double the FY 2005 total.

In addition, Laws 2005, Chapter 287 (the School Facilities Board Budget Reconciliation Bill) requires the School Facilities Board to use up to $4,000,000 in monies transferred to the New School Facilities Fund in FY 2006 for Full-Day Kindergarten capital grants. *(See the School Facilities Board budget pages for additional information.)*

Gifted Support
The budget provides $1,308,300 and 2 FTE Positions from the General Fund for Gifted Support in FY 2006.

The approved amount includes an increase of $4,100 from the General Fund in FY 2006 for statewide adjustments.

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.

Hayden-Winkelman
The budget provides no funding from the School Improvement Revenue Bond Debt Service Fund for Hayden-Winkelman in FY 2006. This eliminates $(3,215,000) in one-time funding for this issue.

Laws 2004, Chapter 278 appropriated $3,215,000 for distribution in FY 2005 to the Hayden-Winkelman School District to pay off the district's outstanding series 1994 callable general obligation bonds. This was intended to lower property tax rates in Hayden-Winkelman in the short term because debt service on those bonds would no longer be required. District taxpayers, however, will be required to pay back the $3,215,000 loan from the School Improvement Revenue Bond Debt Service Fund in 5 annual installments starting in FY 2011, which will affect tax rates again during that repayment period.

Optional Performance Incentive Programs
The budget provides $120,000 from the General Fund for Optional Performance Incentive Programs in FY 2006. This amount is unchanged from FY 2005.

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 Parental Choice for Reading Success in FY 2006. This amount is unchanged from FY 2005.

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 2006. This amount is unchanged from FY 2005.

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 $4,698,100 and 14 FTE Positions for School Accountability in FY 2006. This amount consists of $38,400 from the General Fund and $4,659,700 from the Proposition 301 Fund. These amounts are unchanged from FY 2005.

The School Accountability program (which the department refers to as "Arizona Learns") was established by Laws 2000, Chapter 1, 5th Special Session (the Proposition 301 "companion bill") and requires the department to annually designate each school in the state as being "excelling," "highly performing," "performing" or "underperforming" based on its annual achievement profile (A.R.S. § 15-241). The department computes annual achievement profiles based on school's AIMS (and formerly Stanford 9) test scores, graduation and dropout rates, and "Adequate Yearly Progress" status under No Child Left Behind (NCLB).

"Arizona Learns" is similar to NCLB in that both use test scores as key measures of academic accountability. NCLB, however, also requires 100% of pupils in each state to be proficient in their state's academic standards for math and English by 2014. In addition, NCLB requires states to make "Adequate Yearly Progress" (AYP) each year toward the 2014 goal and applies this requirement both to students as a whole and to subgroups of pupils such as English Learners.

School Report Cards
The budget provides $449,400 and 3 FTE Positions from the General Fund for School Report Cards in FY 2006.

The approved amount includes an increase of $6,100 from the General Fund in FY 2006 for statewide adjustments.

The program is authorized by A.R.S. § 15-746, which requires the department to annually publish a school report card for each Arizona public school. The department uses all program funding to compile, publish, and distribute hard copies of report cards and to post them electronically on its Web site (none of it is passed through to schools). Report cards include information on a school's instructional programs, academic goals, standardized test scores, NCLB compliance, expenditures, attendance and graduation rates, incidents reported to law enforcement agencies, and other general information.

School Safety Program
The budget provides $6,709,700 and 3 FTE Positions from the General Fund for the School Safety Program in FY 2006.

The approved amount includes an increase of $4,800 from the General Fund in FY 2006 for statewide adjustments.

The program places peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154. In addition to the General Fund appropriation, the program receives $7,800,000 in Proposition 301 sales tax monies that are automatically appropriated each year by A.R.S. § 42-5029(E)(6).

Small Pass-Through Programs
The budget provides $581,600 from the General Fund for Small Pass-Through Programs in FY 2006. This amount is unchanged from FY 2005.

The approved amount 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 provides $19,424,600 and 4.7 FTE Positions from the General Fund for the State Block Grant for Early Childhood Education in FY 2006.

The approved amount includes an increase of $9,400 from the General Fund in FY 2006 for statewide adjustments.

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 $11,256,800 and 32 FTE Positions from the General Fund for the State Block Grant for Vocational Education in FY 2006.

The approved amount includes an increase of $57,700 from the General Fund in FY 2006 for statewide adjustments.

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 Vocational Education Extended Year in FY 2006. This amount is unchanged from FY 2005. Funding for the program is used to provide students with extended year or summer school programs in joint technological education districts pursuant to A.R.S. § 15-782.02.

Vetoed Appropriations

H.B. 2718 English Language Learners
H.B. 2718 (English Language Learners), as originally passed, included $35,810,000 from the General Fund and $6,500,000 from the Budget Stabilization Fund for English Language Learner programs in FY 2006. This bill was vetoed by the Governor. The $35,810,000 General Fund amount included $13,500,00 in reappropriated teacher training monies from the original Flores bill (Laws 2001, Chapter 9, 2nd Special Session) that were not yet expended. The original Flores bill appropriated monies for English Learner programs through FY 2005. H.B. 2718 was intended to appropriate increased English Learner funding starting in FY 2006 in order to address the longstanding Flores litigation. That litigation resulted from a 1992 lawsuit filed in federal court claiming that Arizona was failing to properly fund programs for English Learners.

Table 4 shows a summary of the vetoed funding. Not affected by the veto is an estimated $61,622,000 in English Learner "Group B" funding for FY 2006, since the existing "Group B" weight for English Learners in A.R.S. § 15-943(2)(b) will remain in effect for FY 2006 despite the veto.

Table 4
Vetoed English Learner Funding (HB 2718)

Item	Amount	Source
Teacher Training Reimbursements	$13,500,000	GF
Compensatory Instruction Grants	10,000,000	GF
Higher Group B Weight	7,000,000	GF
Higher Group B Weight	6,500,000	BSF*
ADE Program Implementation	2,310,000	GF
Proficiency Tests	1,800,000	GF
Auditor General Evaluation	1,000,000	GF
Task Force	200,000	GF
Total	**$42,310,000**	

* Budget Stabilization Fund

For FY 2005, the original Flores bill made available an estimated $73,011,100 in English Learner funding (about $452 per pupil), including approximately $57,378,700 from the Group B weight, $15,310,000 for grants and $322,400 for monitoring. For FY 2006, H.B. 2718 would have provided an estimated $104,264,600 in English Learner funding (about $601 per pupil), including approximately $61,622,000 from the existing Group B weight, $42,310,000 for items listed in *Table 4* (including the $13,500,000 in reappropriated monies) and $332,600 for administration.

The English Learner Group B weight equals 0.115 for FY 2005 and would have increased to 0.140 in FY 2006 under H.B. 2718. Starting in FY 2007, H.B. 2718 would have eliminated the Group B weight and instead fund English Learners through amounts determined by the department for each school district and charter school.

Additional Legislation

K-12 Education Budget Reconciliation Bill

In addition to provisions described elsewhere, the K-12 Education Budget Reconciliation Bill for FY 2006 (Laws 2005, Chapter 329) includes the following items: 1) allows school districts to have a shorter than 36-week school year using longer days, 2) requires JLBC review of any transfer of monies to or from formula programs, 3) expands school district planning and reporting requirements for excess utilities, and 4) requires the department to annually prepare and submit a summary of school district excess utility reports.

Taxation; Corporations; Property; Budget

Laws 2005, Chapter 302 reduces the property tax assessment ratio for Class 1 (commercial) property from 25% currently to 20% over a 10-year period starting in FY 2007. It also changes the Homeowner's Rebate formula over a 5-year period starting in FY 2007 in order to offset a tax shift to homeowners that otherwise would occur under the bill. A summary of assessment ratio and Homeowner's Rebate changes that will occur under the bill appears in *Table 5.*

Table 5

Assessment Ratio and Homeowner's Rebate Changes (Ch. 302)

Fiscal Year	Class 1 Assessment Ratio	Homeowner's Rebate %	Homeowner's Rebate Cap
FY 2007	24.5%	36%	$520
FY 2008	24.0%	37%	$540
FY 2009	23.5%	38%	$560
FY 2010	23.0%	39%	$580
FY 2011	22.5%	40%	$600
FY 2012	22.0%	40%	$600
FY 2013	21.5%	40%	$600
FY 2014	21.0%	40%	$600
FY 2015	20.5%	40%	$600
FY 2016+	20.0%	40%	$600

TAPBI Program; School

Laws 2005, Chapter 323 modifies statute pertaining to the Technology Assisted Project-Based Instruction (TAPBI) Program authorized by A.R.S. § 15-808. That program enables students to take classes via the Internet using home or school-based computers. Prior to Chapter 323, the program was available only to pupils who attended public school in the previous year and their Kindergarten siblings. Chapter 323 instead allows up to 20% of new pupils at each site annually to be former private school pupils, home school pupils, or dropouts.

Joint Technological Education Districts

Laws 2005, Chapters 294 and 329 makes a number of statutory and session law changes that may affect state funding to Joint Technological Education Districts ("JTED's") in FY 2006 and future years. A description of those changes appears after the JTED overview below.

JTED Overview

JTED's are "overlay" school districts formed by 2 or more "regular" school districts in order to provide their students with enhanced Career and Technical Education (CTE) coursework. JTED's receive funding under the same K-12 equalization funding formula as school districts, except that their Qualifying Tax Rate (QTR) is 5 cents per $100 of Net Assessed Valuation rather than the $3.62 (for FY 2006) QTR assumed for non-JTED's. (Property owners in a school district that belongs to a JTED pay both the $3.62 district QTR and 5 cent JTED QTR.) As a result of the relatively low JTED QTR, funding for Arizona's 10 current JTED's comes mostly from the state General Fund. For FY 2006, the JLBC Staff estimates that JTED's statewide will receive $60,492,800 in K-12 equalization formula funding, including $42,737,800 (71%) from the General Fund and $17,755,000 (29%) from local property taxes.

As with regular school districts, Basic State Aid funding for JTED's is based on Average Daily Membership (ADM) counts. Those counts are multiplied by per pupil funding allotments defined in statute in order to compute a district or JTED's formula funding entitlement *(see "Formula Overview" discussion under Basic State Aid).*

For FY 2006, the JLBC Staff estimates that JTED's will serve approximately 14,000 ADM pupils statewide. In FY 2004 (the most recent year with final data), JTED's served about 10,400 ADM pupils statewide. These figures include both central campus and "satellite" ADM. "Satellite" ADM are generated by students who take JTED CTE courses at a local high school, rather than at a JTED campus. Most JTED ADM growth in recent years has been attributable to satellite programs. Roughly 70% of statewide JTED ADM in FY 2006 will come from satellite programs under current JLBC Staff estimates.

JTED courses also affect community college funding because community colleges can generate "Full Time Student Equivalent" (FTSE) funding for high school pupils who take JTED courses for both high school and community college credit. Such courses can be taught at either a local high school or community college, depending on arrangements made by the local JTED.

Changes that Laws 2005, Chapters 294 and 329 make to JTED funding are described below.

State Aid Cap

The K-12 Education Budget Reconciliation Bill (Laws 2005, Chapter 329) caps a JTED's Basic State Aid for FY 2006 at the greater of its FY 2005 Basic State Aid or twice its FY 2006 QTR revenues. This is expected to cap state aid for 9 of the 10 current JTED's at the FY 2005 level, but allow the Western Maricopa Education Center (West-MEC) to receive first-time Basic State Aid funding in FY 2006. Expiring session law language required

West-MEC to operate using local monies only during its first 2 years (FY 2004 and FY 2005). West-MEC will receive an estimated $8,711,500 in Basic State Aid funding for FY 2006.

Continued Moratorium
Chapter 294 extends through FY 2006 expiring session law language that in some situations prohibited the formation of new JTED's and expansion of existing JTED's in recent years. The bill exempts Pima County from this provision, however, which enables it to seek voter approval during FY 2006 to open a new JTED in FY 2007.

ADM Miscalculations
Chapter 294 prohibits the department from reducing Basic State Aid to the East Valley Institute of Technology (EVIT) and Northern Arizona Vocational Institute of Technology (NAVIT) in order to correct ADM miscalculations reported by the Auditor General in its December 2004 analysis of JTED's. In that analysis, the Auditor General reported that EVIT and NAVIT had overstated their ADM counts for FY 2004 and reported that it was likely that they had overstated their counts for prior years as well. The report indicated that this inflated EVIT's funding by approximately $2,000,000 and NAVIT's by about $320,000 for FY 2004.

General Education Courses
Chapter 294 permanently prohibits a JTED from including students in general education courses, such as math and science, in its ADM counts. The Auditor General's December 2004 JTED report indicated that NAVIT received $161,000 for 38 ADM students enrolled in general education courses in FY 2004. A FY 2006 savings of approximately $161,000 therefore is anticipated from this change.

ADM from Concurrent Enrollment
Chapter 294 caps ADM for high school pupils who receive both high school and community college credit for a JTED course taught at a community college campus at 0.5 ADM for FY 2006. This provision will not affect JTED funding for FY 2006 because that funding will not be based on ADM counts due to the "State Aid Cap" issue described above. It potentially could reduce Basic State Aid funding to non-growing JTED's (if any) in FY 2007, however, because under permanent law their FY 2007 funding will be based on their prior year (FY 2006) ADM counts, which could be lower under this provision.

FTSE from Dual Enrollment
For FY 2006 only, Chapter 294 prohibits a community college from including in its Full-Time Student Equivalent (FTSE) count a student who is enrolled in a high school course offered by a JTED that is taught at a high school or JTED campus. This is not expected to affect community college funding in FY 2006 because operating state aid for community colleges that year will be based on FTSE counts from FY 2004 rather than FY 2006 pursuant to A.R.S. § 15-1466.

Elementary School Pupils
Chapter 294 permanently prohibits JTED's from including K-8 pupils in their ADM counts. It also permanently prohibits JTED's from spending any of their funding on pupils in Grades K-6 (spending on 7th and 8th Graders is permitted).

Non-Supplanting
Chapter 294 permanently requires JTED member districts to spend all of the pass-through funding that they receive from their JTED on Career and Technical Education. This provision is phased in over 3 years starting in FY 2006.

"Owned or Operated"
Chapter 294 permanently amends A.R.S. § 15-393 to specify that the current 0.25 ADM per pupil cap for "satellite" JTED courses applies to courses that are taught at facilities either owned *or* operated by a member school district. Prior to this change, a JTED potentially could have leased and operated a school district facility in order to qualify for up to 1.0 (rather than 0.25) ADM for each JTED pupil taught in that facility.

Miscellaneous
Chapter 294 also extends the deadline for the Coconino County JTED to inform the Department of Revenue about a boundary change for FY 2006, establishes a JTED task force (membership unspecified, but appointed by the Senate President and Speaker of the House) and requires the Auditor General to prescribe procedures for compliance with financial provisions of the Act.