

Department of Education
Assistance to Schools

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DESCRIPTION	FY 2004 ACTUAL	FY 2005 ESTIMATE	FY 2006 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	67.7	67.7	67.7
SPECIAL LINE ITEMS			
<u>Statutory Formula Programs</u>			
Basic State Aid Entitlement	2,648,072,800	2,802,264,000	2,934,672,000
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	33,128,600
<i>Subtotal - Statutory Formula Programs</i>	2,947,442,200	3,130,397,000	3,265,383,200
<u>Non-Formula Programs</u>			
Adult Education Assistance	4,438,100	4,443,800	4,443,800
AIMS Intervention; Dropout Prevention	550,000	550,000	550,000
Chemical Abuse	770,600	800,500	800,500
English Learner Grants	14,136,400	15,310,000	15,310,000
Extended School Year	460,600	500,000	500,000
Family Literacy	990,100	1,003,400	1,003,400
Full-Day Kindergarten	0	21,000,000	21,000,000
Gifted Support	1,284,700	1,304,200	1,304,200
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	443,300
School Safety Program	5,324,400	6,704,900	6,704,900
Small Pass-Through Programs	556,400	581,600	581,600
State Block Grant - Early Childhood Education	19,334,100	19,415,200	19,415,200
State Block Grant - Vocational Education	11,154,100	11,199,100	11,199,100
Vocational Education Extended Year	600,000	600,000	600,000
<i>Subtotal - Non Formula Programs</i>	63,158,000	92,899,100	89,684,100
PROGRAM TOTAL	3,010,600,200	3,223,296,100	3,355,067,300
FUND SOURCES			
General Fund	2,948,811,500	3,168,912,300	3,307,184,600
<u>Other Appropriated Funds</u>			
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	3,355,067,300
Other Non-Appropriated Funds	374,697,400	456,166,900	489,602,400
Federal Funds	628,086,400	678,814,200	717,425,000
TOTAL - ALL SOURCES	4,013,384,000	4,358,277,200	4,562,094,700

CHANGE IN FUNDING SUMMARY

	\$ Change	% Change
General Fund	138,272,300	4.4%
Other Appropriated Funds	(6,501,100)	(12.0%)
Total Appropriated Funds	131,771,200	4.1%
Non Appropriated Funds	72,046,300	6.3%
Total - All Sources	203,817,500	4.7%

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 2005 Estimate	FY 2006 JLBC
• % of students tested who perform at or above the national norm on the norm-referenced test (grade 2)				
-- reading	44	46	57	48
-- math	51	53	57	55
• % of students tested who perform at or above the national norm on the norm-referenced test (grade 9)				
-- reading	36	35	57	37
-- math	58	57	57	59
• % of schools with at least 75% of students meeting or exceeding standards in:				
-- reading	26	21	94	27
-- writing	26	33	81	37
-- math	14	12	82	20
• % of Arizona high school students who enter 9 th grade and graduate within 4 years	70.8	72.7	Baseline +1	75
• % of students in grade 3 meeting or exceeding state academic standards in:				
-- reading	76	71	81	80
-- writing	77	80	84	82
-- math	66	63	71	70
• % of students in grade 5 meeting or exceeding state academic standards in:				
-- reading	57	51	66	66
-- writing	55	62	66	68
-- math	49	47	55	60
• % of students in grade 8 meeting or exceeding state academic standards in:				
-- reading	54	49	64	62
-- writing	45	58	55	66
-- math	21	26	46	36
• % of students in grade 12 meeting or exceeding state academic standards in:				
-- reading	31	29	91	90
-- writing	46	39	82	90
-- math	14	11	73	90
• % of students in grades 3, 5 and 8 meeting or exceeding state academic requirements in:				
-- reading	62	57	Baseline +2	--
-- writing	59	66		--
-- math	45	45		--
• % of students in grades 10, 11 and 12 meeting state academic requirements in:				
-- reading	54	53	Baseline +1	--
-- writing	65	58		--
-- math	31	32		--
• % of students tested:				
-- Norm-referenced test (grades 2 & 9)	95	93	96	96
- AIMS	95	96	96	97
• % of Arizona schools receiving an underperforming label (NEW)	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). Current data for the Class of 2006 (not in table) indicate that 59% passed reading, 62% passed writing and 39% passed math when they took AIMS for the first time during spring 2004 testing (when they were sophomores). 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.

RECOMMENDED CHANGES FROM FY 2005

Special Line Items/Statutory Formula Programs

BASIC STATE AID

Basic State Aid Entitlement

The JLBC recommends \$2,934,672,000 for Basic State Aid in FY 2006. This amount consists of \$2,891,449,000 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 recommended 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 will not appear in the General Appropriation Act for FY 2006.

The recommended \$2,934,672,000 total includes a General Fund increase of \$135,694,100 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—enabling them all to spend approximately the same amount of M&O money per pupil from state and local sources combined. A few districts with very strong local property tax bases are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require “Basic State Aid” monies in order to receive full formula funding.

The equalization formula for school districts consists of 4 elements: the Base Support Level (BSL), Transportation Support Level (TSL), Capital Outlay Revenue Limit (CORL), and Soft Capital. All but the TSL are computed by multiplying a specific dollar amount by a school district’s student count (adjusted for various weights). The TSL, however, is computed by multiplying a specific dollar amount by a district’s pupil transportation route miles. BSL, TSL and CORL funds may be used for M&O

	<u>General Fund</u>	<u>Permanent State School Fund</u>	<u>Prop 301 Sales Tax</u>	<u>Total</u>
Basic State Aid from FY 2005	\$2,755,754,900 ^{1/}	\$ 46,509,100	\$ 66,957,200	\$2,869,221,200
Changes for FY 2005:				
FY 2005 Base Adjustment	(10,000,000)	0		(10,000,000)
Enrollment Growth	152,090,000			152,090,000
2% Deflator	78,730,800			78,730,800
Net Assessed Valuation (NAV) Growth	(122,492,800)			(122,492,800)
Truth in Taxation	34,080,000			34,080,000
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
DOC, DJC and Miscellaneous	0			0
Total – Cost after Formula Changes	\$2,891,449,000 ^{2/}	\$ 43,223,000 ^{2/}	\$ 86,280,500	\$3,020,952,500

^{1/} Includes \$191,293,800 appropriated for the “K-12 rollover” by Laws 2003, Chapter 264.
^{2/} Represents appropriated Basic State Aid Funds. Proposition 301 monies for Basic State Aid are not appropriated.

or capital expenditures. Soft Capital funds may be used for capital items only. The sum of the 4 formula components equals what is referred to as a school district's "equalization base," which is its total funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, the net assessed property value (NAV) of the district is multiplied by the statutory "Qualifying Tax Rate" (QTR) and "County Equalization" tax rate in order to determine the amount of funding that is assumed to come from local sources under the formula. If this combined amount exceeds the district's equalization base, it is not entitled to Basic State Aid. If, however, its "local share" funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local tax rate for schools may be lower than the QTR, or higher if the district is allowed to budget for items outside of its "Revenue Control Limit" (RCL) under A.R.S. § 15-910. It also may be higher if the district participates in a Career Ladder program pursuant to A.R.S. § 15-918, or in an Optional Performance Incentive Program pursuant to A.R.S. § 15-919.

Basic State Aid is also provided to charter schools, which are schools that (unlike school districts) do not have geographic boundaries, operate under terms specified in a "charter," and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools is somewhat different than that of school districts in that it does not include separate funding for CORL, Soft Capital or Transportation. Instead the charter school funding formula consists only of BSL funding plus "Additional Assistance." BSL funding for charter schools is determined under the same computational formula prescribed for traditional public schools (A.R.S. § 15-943). Additional Assistance funding amounts are established in statute (A.R.S. § 15-185.B4) and they currently (for FY 2005) equal \$1,303.97 per pupil for Grades K-8 and \$1,519.75 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

Major Changes to Basic State Aid

Base Adjustment **GF (10,000,000)**

The JLBC recommends a decrease of \$(10,000,000) from the General Fund in FY 2006 in order to adjust the base budget for the program for lower than expected ADM growth in FY 2004. Current data indicate that statewide ADM grew by only 21,800 pupils (2.4%) in FY 2004 versus 30,865 (3.5%) in FY 2003 (see Table 2). This low growth is expected to result in a Basic State Aid surplus for FY 2004, which potentially could reduce base costs for the program going into FY 2006. Final Basic State Aid costs for FY 2004 are not yet known, so the magnitude of the FY 2004 surplus remains uncertain. The recommended \$(10,000,000) amount will be revised once final Basic State Aid costs for FY 2004 are known.

Enrollment Growth **GF 152,090,000**

The JLBC recommends an increase of \$152,090,000 from the General Fund for enrollment growth for FY 2006. This total consists of approximately \$97,337,700 for ADM growth in school districts and \$54,752,300 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 2006 of 991,582 for school districts and charter schools combined. This would be an increase of 30,436 ADM pupils (3.2%) above our current estimate for FY 2005. These estimates are subject to substantial revision once ADM counts for FY 2004 become finalized and after initial 100-day ADM counts for FY 2005 become available.

JTED's – The 3.2% ADM growth estimate for FY 2006 assumes no increase in Basic State Aid funding for Joint Technology Education Districts (JTED's) in FY 2006. This would require a statutory change that caps JTED Basic State Aid costs for FY 2006 at the FY 2005 level. (Statewide Basic State Aid costs for JTED's for FY 2005 will not be known until at least late April 2005, but equaled approximately \$35,000,000 for FY 2004.) The recommended cap could either freeze Basic State Aid funding for each individual JTED at its FY 2005 level or allow some combination of funding increases and decreases among JTED's netting to zero. That decision would be made during the budget hearing process.

The current cap (Laws 2002, Chapter 330 extended through FY 2005 by Laws 2004, Chapter 278) prohibits the formation of new JTED's (with 2 exceptions) and allows school districts to join existing JTED's only if they share a border with them. A December 2004 Auditor General review of JTED's found that JTED ADM statewide increased by approximately 5,000 pupils (nearly double) under the current cap. It also indicated that state costs would immediately increase by about \$3,500,000 if the current cap were lifted for 2 new JTED's that were allowed to form under it. (See "Other Issues for Legislative Consideration" for more information about the Auditor General's December 2004 JTED analysis.)

Rapid Decline – The recommended \$152,090,000 increase for Enrollment Growth likewise assumes that the Rapid Decline formula in A.R.S. § 15-942 would again be funded at 50% of the full formula cost for FY 2006. Section 10 of the Education Budget Reconciliation Bill for FY 2005 (Laws 2004, Chapter 178) requires Rapid Decline to be funded at the 50% level for FY 2005. The JLBC recommends including language similar to Section 10 in the FY 2006 Education Budget Reconciliation Bill in order to require 50% funding of Rapid Decline for FY 2006, which would continue the policy for this issue through FY 2006 (see JLBC Recommended Statutory Changes).

Table 2**Average Daily Membership (ADM)
Students by Academic Year**

	<u>Districts (including Charters)</u>	<u>State Charters</u>	<u>Total</u>	<u>Change</u>	<u>% Change</u>
2003	843,440	66,231	909,671	30,865	3.5%
2004 est	857,479	73,992	931,471	21,800	2.4%
2005 est	879,015	82,131	961,146	29,675	3.2%
2006 est	901,238	90,344	991,582	30,436	3.2%

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 2004 through 2006**

	<u>2004 est</u>	<u>2005 est</u>	<u>2006 est</u>
School Districts	856,007	877,837	900,296
Dist. Sponsored Charters	1,473	1,178	942
St. Board Spon'd Charters	<u>73,991</u>	<u>82,131</u>	<u>90,344</u>
Total	931,471	961,146	991,582

2% Inflation Adjustment GF 78,730,800

The JLBC recommends an increase of \$78,730,800 from the General Fund in FY 2006 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 (along with a further 0.5% increase for an additional school day, as described below) would result in base level of \$2,966.07 per pupil for FY 2006. The 2% increase in transportation route mile funding would provide \$1.71 or \$2.11 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.

Net Assessed Valuation**(NAV) Growth GF (122,492,800)**

The JLBC recommends a decrease of \$(122,492,800) from the General Fund in FY 2006 due to growth in statewide property values. The recommended \$(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.

Endowment Earnings

GF 3,286,100
OF (3,286,100)

The JLBC recommends 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(B1), debt service on both types of bonds is paid using K-12 endowment earning monies. The recommended \$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.

For FY 2006, we currently estimate that expendable K-12 endowment earnings will equal \$111,062,200, which would be an \$11,930,500 increase above our current \$99,121,700 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. (See the “Summary of Funds” for additional information regarding the Proposition 301 Classroom Site Fund.)

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 34,080,000

The JLBC recommends 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.

Data on local property values that are needed in order to precisely compute TNT reductions for FY 2006 will not be available until mid February 2005. Based on past patterns regarding TNT costs at differing NAV growth levels and assuming NAV growth of 8% for all properties and 2.4% for existing properties for FY 2006, however, we currently estimate TNT costs for FY 2006 at \$34,080,000. This would require the K-12 QTR to be reduced from \$3.7862 currently to \$3.7122 in FY 2006 and the County Equalization tax rate to be reduced from \$0.4560 currently to \$0.4471 in FY 2006 (all rates are per \$100 of NAV) (*see Table 4*).

<u>Tax Rate</u>	<u>FY 2005</u>	<u>FY 2006</u>
Qualifying Tax Rate (QTR)		
•High School districts and elementary districts located within a high school district	\$1.8931	\$1.8561
•Unified districts and elementary districts not located within a high school district	\$3.7862	\$3.7122
•County Equalization Tax Rate (all districts)	\$0.4560	\$0.4471

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.

K-12 Rollover GF 0

The JLBC recommends no funding change for the K-12 Rollover for FY 2006. 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. This practice was again implemented for both FY 2004 and FY 2005 in order to avoid the need for “13 months” of Basic State Aid payments to be funded for those years in order to permanently pay back the June 2003 rollover. The JLBC recommends continuing the rollover for FY 2006 by deferring \$191,000,000 of FY 2006 Basic State Aid funding to FY 2007.

Continuation of the 1 month deferred payment will require statutory authorization. In addition, the FY 2006 budget would include an “advance appropriation” of \$191,300,000 for FY 2007 to recognize the state’s deferred obligation (*see JLBC Recommended Statutory Changes*).

Additional School Day GF 0

The JLBC recommends no appropriated funding change for Additional School Days for FY 2006. This is because A.R.S. § 42-5029(E5) already allocates Proposition 301 monies for additional school days. Proposition 301 allocated \$66,957,200 for additional school days in FY 2005 and increases that amount by \$19,323,300 in FY 2006, providing \$86,280,500 in total additional school day funding for FY 2006 (*see Table 1*). The \$19,323,300 increase for FY 2006 will be used to add 1 additional day to the school year during FY 2006, which will result in a total school year of 190 days. This will be the last increase to the school year mandated by Proposition 301. The \$86,280,500 non-appropriated total for additional school days for FY 2006 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” and “1% Cap”)**

Additional State Aid to Schools

The JLBC recommends \$297,213,200 from the General Fund for Additional State Aid in FY 2006. 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 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.

Base Adjustment **GF (16,851,700)**

The JLBC recommends a decrease of \$(16,851,700) from the General Fund in FY 2006 for a base adjustment for the program. This is recommended because the Arizona Department of Revenue (ADOR) has computed the actual cost of the program for FY 2005 pursuant to A.R.S. § 15-972(H) and that amount is \$(16,851,700) less than the program’s FY 2005 appropriation. This allows the budget base for the program to be reduced by \$(16,851,700).

Net Assessed Value Growth **GF 17,395,200**

The JLBC recommends an increase of \$17,395,200 from the General Fund in FY 2006 for Net Assessed Value (NAV) growth. This assumes that statewide NAV for all classes of property combined will grow by 8% for FY 2006. It also assumes that Additional State Aid costs will increase by \$2,174,400 for every 1% of NAV growth based on past trends.

OTHER STATUTORY FORMULA PROGRAMS

Assistance to School Districts for Children of State Employees

The JLBC recommends \$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 JLBC recommends \$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 JLBC recommends \$33,128,600 and 1 FTE Position from the General Fund for special education vouchers in FY 2006. This amount would fund the following adjustments:

Enrollment Growth **GF 1,435,200**

The JLBC recommends an increase of \$1,435,200 from the General Fund in FY 2006 for estimated 4.6% overall growth in the number of pupils requiring special education vouchers.

2% Inflation Adjustment **GF 599,500**

The JLBC recommends an increase of \$599,500 from the General Fund in FY 2006 in order to fund 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 JLBC recommends \$4,443,800 and 4 FTE Positions from the General Fund for Adult Education Assistance in FY 2006. This amount is unchanged from FY 2005. 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 JLBC recommends \$550,000 from the General Fund for AIMS Intervention/Dropout Prevention in FY 2006. This amount is unchanged from FY 2005. 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 \$800,500 and 3 FTE Positions from the General Fund for the Chemical Abuse Prevention Program in FY 2006. This amount is unchanged from FY 2005. The program funds chemical abuse prevention programs for students in grades K-12 pursuant to A.R.S. § 15-712.

English Learner Grants

The JLBC recommends \$15,310,000 from the General Fund for English Learner Grants in FY 2006. This amount is unchanged from FY 2005. Laws 2001, Chapter 9, 2nd Special Session (the “Flores” bill) provided \$15,310,000 annually for this program through FY 2005. The total \$15,310,000 annual appropriation has included \$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. This recommendation would continue that funding, but through appropriation through the General Appropriation Act starting in FY 2006.

Extended School Year

The JLBC recommends \$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 JLBC recommends \$1,003,400 and 1 FTE Position from the General Fund for Family Literacy in FY 2006. This amount is unchanged from FY 2005. 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.

Full-Day Kindergarten

The JLBC recommends \$21,000,000 from the General Fund for Full-Day Kindergarten in FY 2006. This amount is unchanged from FY 2005.

Laws 2004, Chapter 278 (the FY 2005 Education Budget Reconciliation Bill) appropriated \$21,000,000 in first-time General Fund funding for the program for FY 2005. A.R.S. § 15-901.02, as established by Chapter 278, requires all FY 2005 funding for the program to be allocated to schools (both district and charter) that have at least 90% of their pupils qualifying for free or reduced price lunches under the federal school lunch program. A.R.S. § 15-901.02 also establishes a Full-Day Kindergarten Fund for administering monies for the program and requires those monies to be distributed on a per pupil basis. In addition, it establishes a Joint Legislative Study Committee on Full-Day Kindergarten and requires the Legislature to develop a plan to provide statewide Full-Day Kindergarten instruction by FY 2010 that considers recommendations from the Committee.

Laws 2004, Chapter 278 also appropriated \$4,000,000 from the General Fund to the School Facilities Board for capital grants for the program (*see the School Facilities Board budget pages for additional information*).

Gifted Support

The JLBC recommends \$1,304,200 and 2 FTE Positions from the General Fund for Gifted Support in FY 2006. This amount is unchanged from FY 2005.

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 JLBC recommends no funding for Hayden-Winkelman in FY 2006. This amount would fund the following adjustments:

Eliminate One-Time Funding OF (3,215,000)

The JLBC recommends a decrease of \$(3,215,000) from the School Improvement Revenue Bond Debt Service Fund in FY 2006 in order to eliminate one-time funding from Laws 2004, Chapter 278. Section 17 of that law appropriated \$3,215,000 for distribution to the Hayden-Winkelman School District and designated that this money be used to pay off the district's outstanding series 1994 callable general obligation bonds. This is intended to lower property tax rates in Hayden-Winkelman in the short term because debt service on those bonds will 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.

On a related note, Laws 2004, Chapter 278 also established A.R.S. § 15-980, which entitles a school district to "supplemental state aid" if its county treasurer anticipates that more than 30% of its primary property tax revenues will be delinquent. No funding is recommended for this issue for FY 2006, however, because of the small likelihood of any school district experiencing a tax delinquency rate of more than 30%.

Optional Performance Incentive Programs

The JLBC recommends \$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 JLBC recommends \$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 JLBC recommends \$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 JLBC recommends \$4,698,100 and 14 FTE Positions from the Proposition 301 Fund 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 purpose of the School Accountability program is to promote improved student achievement and school accountability pursuant to A.R.S. § 15-241.

School Report Cards

The JLBC recommends \$443,300 and 3 FTE Positions from the General Fund for School Report Cards in FY 2006. This amount is unchanged from FY 2005.

The school report card program is required by A.R.S. § 15-746. Under it, each school supplies annual information to the department regarding school goals and student achievement, and the department compiles and publishes that information in paper and electronic "school report cards."

School Safety Program

The JLBC recommends \$6,704,900 and 3 FTE Positions from the General Fund for the School Safety Program in FY 2006. This amount is unchanged from FY 2005.

The program places peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154. In addition to the recommended General Fund appropriation, the program would receive \$7,800,000 in Proposition 301 sales tax monies that are automatically appropriated each year by A.R.S. § 42-5029(E6).

Small Pass-Through Programs

The JLBC recommends \$581,600 from the General Fund for Small Pass-Through Programs in FY 2006. This amount is unchanged from FY 2005. The recommended 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 JLBC recommends \$19,415,200 and 4.7 FTE Positions from the General Fund for the State Block Grant for Early Childhood Education in FY 2006. This amount is unchanged from FY 2005. 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 JLBC recommends \$11,199,100 and 32 FTE Positions from the General Fund for the State Block Grant for Vocational Education in FY 2006. This amount is unchanged from FY 2005. The program provides block grants to school districts and charter schools that have career and technical education programs.

Vocational Education Extended Year

The JLBC recommends \$600,000 from the General Fund for Vocational Education Extended Year in FY 2006. This amount is unchanged from FY 2005. This funding is to enable students to attend an extended year or summer school program in a joint technological education district pursuant to A.R.S. § 15-783.02.

* * *

JLBC RECOMMENDED FORMAT — Special Line Items by Program

JLBC RECOMMENDED FOOTNOTES

Standard Footnotes

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.

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.

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.

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.

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 2006 Basic State Aid payment until July 2006.
- 2) Increase the formula funding "base level" in A.R.S. § 15-901(B2) to \$2,966.07 for 2% inflator and additional school day.
- 3) 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).
- 4) Extend through FY 2006 the "soft cap" on desegregation expenditures established by Laws 2004, Chapter 278.
- 5) Extend through FY 2006 session law language in Laws 2004, Chapter 278 that allows a shorter than 36-week school year using longer days.
- 6) Continue to fund the Rapid Decline formula in A.R.S. § 15-942 at 50% for FY 2006.
- 7) Cap Basic State Aid funding to Joint Technology Education Districts collectively for FY 2006 at the funding level observed statewide for FY 2005.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Auditor General Study on Joint Technology Education Districts

As noted in the Basic State Aid narrative, the Auditor General released a special study on Joint Technology

Education Districts (JTED's) during December 2004. The study observed that funding for JTED satellite courses grew from about \$3,800,000 to approximately \$31,700,000 between FY 2001 and FY 2004 and that JTED ADM nearly doubled statewide between FY 2002 and FY 2004 despite a "cap" on JTED enrollments. The study noted that a number of factors may cause JTED costs to increase further in the future under current law. These factors include 1) a recent Attorney General opinion that potentially can allow "satellite" courses (JTED courses taught at regular high schools instead of at a JTED central campus) to be funded at higher rates currently permitted for central campus courses only; 2) continued conversion of existing school district vocational education courses into JTED satellite courses (estimated potential cost exceeds \$100,000,000); 3) expansion of JTED payments to students in 7th and 8th grade vocational education classes; 4) classification of general education classes (such as English and Math) as vocational programs; and 5) increasing community college participation, resulting in higher FTSE counts.

The report also noted that under current law it is possible for a JTED pupil to count as being 1 ADM for their high school, 1 ADM for their JTED and 1 FTSE for their local community college, tripling state funding for them. This can occur if a pupil attends 4 hours of instruction per day at both a high school and JTED central campus, and if they receive enough "dual enrollment" community college credit for their high school or JTED coursework combined (or some combination of high school, JTED and community college coursework) to also be counted as 1 FTSE.

The study indicates that JTED's currently account for 0.3% of total statewide FTSE, and that EVIT and NAVIT generated 57.3 and 213.3 FTSE, respectively, for FY 2004.

The report also observed that EVIT and NAVIT member districts do not spend all of their pass-through monies from EVIT and NAVIT on vocational education. It reported that NAVIT members spent only 62% of pass-through monies on vocational education in FY 2004 and that EVIT members spent 7% less on vocational education in FY 2004 than they did in FY 2003 despite a 50% increase in their JTED satellite ADM that year. The study does not indicate what remaining pass-through monies were spent on for FY 2004, but they potentially were used for general costs such as salaries for non-vocational education teachers.

An electronic copy of the full report may be seen at www.auditorgen.state.az.us.

OVERVIEW OF PROPOSITION 301

This section provides an overview of Proposition 301 from the November 2000 General Election. That Proposition amended A.R.S. § 42-5010 in order to raise the state Transaction Privilege Tax (TPT) ("sales tax") rate on most

purchases from 5% to 5.6%. It also amended A.R.S. § 42-5029 in order to prescribe how those new revenues would be allocated (see *Table 1*).

As shown in *Table 5*, the K-12 Classroom Site Fund receives all monies that remain from the Proposition 301 Fund after all other allocations are made. It also receives

all growth in expendable earnings from the Permanent State School Fund after FY 2001.

The allocations shown in *Table 5* are estimates. Actual allocations will depend on sales tax collections for FY 2005 and FY 2006.

Table 5			
	Proposition 301 Monies		
<u>Revenues</u>	<u>FY 2004</u>	<u>FY 2005 *</u>	<u>FY 2006 *</u>
Estimated 0.6 cent Sales Tax Revenue	\$487,214,800	\$530,596,900	\$ 566,125,600
<u>Expenditures</u>			
Students FIRST Debt Service	66,053,200	65,814,700	65,805,000
Universities	50,539,400	55,771,500	60,038,500
Community Colleges	12,634,800	13,942,900	15,009,600
Tribal Assistance	495,100	501,400	515,500
Additional School Days	48,727,700	66,957,200	66,957,200
School Safety	7,800,000	7,800,000	7,800,000
Character Education	200,000	200,000	200,000
School Accountability	6,842,300	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000
Classroom Site Fund	<u>267,422,300</u>	<u>286,089,200</u>	<u>316,299,800</u>
Total Expenditures	\$487,214,800	\$530,576,900	\$566,125,600
* Estimated			

SUMMARY OF FUNDS - SEE AGENCY SUMMARY

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