

**Department of Education**  
**Formula Programs**

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DESCRIPTION	FY 2005 ACTUAL	FY 2006 ESTIMATE	FY 2007 JLBC
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	21.0	29.0	29.0
Personal Services	666,800	1,409,800	1,409,800
Employee Related Expenditures	102,700	373,700	373,700
Professional and Outside Services	20,200	19,200	19,200
Travel - In State	1,300	62,000	62,000
Other Operating Expenditures	163,400	134,100	134,100
Equipment	33,000	0	0
<b>OPERATING SUBTOTAL</b>	<b>987,400</b>	<b>1,998,800</b>	<b>1,998,800</b>
<b>SPECIAL LINE ITEMS</b>			
Basic State Aid	2,766,603,400	2,949,069,300	3,143,825,800
Additional State Aid	279,818,000	297,213,200	326,698,700
Special Education Fund	31,093,900	33,130,500	35,232,300
Other State Aid to Districts	3,978,900	369,400	983,900
<b>PROGRAM TOTAL</b>	<b>3,082,481,600</b>	<b>3,281,781,200</b>	<b>3,508,739,500</b>
<b>FUND SOURCES</b>			
General Fund	3,032,757,500	3,238,558,200	3,463,518,800
<u>Other Appropriated Funds</u>			
Permanent State School Fund	46,509,100	43,223,000	45,220,700
School Improvement Revenue Bond Debt Service Fund	3,215,000	0	0
SUBTOTAL - Other Appropriated Funds	49,724,100	43,223,000	45,220,700
<b>SUBTOTAL - Appropriated Funds</b>	<b>3,082,481,600</b>	<b>3,281,781,200</b>	<b>3,508,739,500</b>
Other Non-Appropriated Funds	396,732,200	516,189,000	511,501,600
<b>TOTAL - ALL SOURCES</b>	<b>3,479,213,800</b>	<b>3,797,970,200</b>	<b>4,020,241,100</b>

**CHANGE IN FUNDING SUMMARY**

	FY 2006 to FY 2007 JLBC	
	\$ Change	% Change
General Fund	224,960,600	6.9%
Other Appropriated Funds	1,997,700	4.6%
Total Appropriated Funds	226,958,300	6.9%
Non Appropriated Funds	(4,687,400)	(0.9%)
Total - All Sources	222,270,900	5.9%

**COST CENTER DESCRIPTION** — This program funds the agency’s School Finance Unit, which processes formula funding payments to schools and monitors school district and charter school compliance with school budgeting laws. It also funds the formula programs themselves, the largest of which are Basic State Aid and Additional State Aid. Basic State Aid provides the state’s share of equalization assistance to school districts and charter schools based on a funding formula set in statute. Additional State Aid funds the “Homeowner’s Rebate” program, through which the state pays a portion of each homeowners’ school property taxes.

For FY 2006 and prior years, the operating budget for the School Finance Unit was funded through the former General Services Administration cost center and Basic State Aid and other formula programs were funded through the former Assistance to Schools cost center. All “non-formula” programs formerly funded through “Assistance to Schools” now are funded through the “Non-Formula Programs” cost center. These changes are being made in FY 2007 due to the agency’s transition to “program budgeting.” Funding totals in the table above have been adjusted for all years for comparability with the agency’s new budget structure.

**RECOMMENDED CHANGES FROM FY 2006**

Formula Overview

**Operating Budget**

The JLBC recommends \$1,998,800 from the General Fund for the operating budget in FY 2007. This amount is unchanged from FY 2006.

**Special Line Items/Statutory Formula Programs**

**BASIC STATE AID**

**Basic State Aid Entitlement**

The JLBC recommends \$3,143,825,800 for Basic State Aid in FY 2007. This amount consists of:

	<b><u>FY 2007</u></b>
General Fund	\$3,098,605,100
Permanent State School Fund	45,220,700

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 2007 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 2007 by the Education Budget Reconciliation Bill for FY 2006 (Laws 2005, Chapter 329). Those monies therefore will not appear in the General Appropriation Act for FY 2007.

The recommended \$3,143,825,800 total includes a General Fund increase of \$192,758,800 and a Permanent State School Fund increase of \$1,997,700. Components of these recommended changes are described in detail after the overview of Arizona’s K-12 equalization funding formula that appears below.

K-12 Education funding in Arizona is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula "equalizes" maintenance and operation (M&O) funding among school districts, enabling them all to spend approximately the same amount of M&O money per pupil from state and local sources combined. A few districts with very strong local property tax bases are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require "Basic State Aid" monies in order to receive full formula funding.

The equalization formula for school districts consists of 4 elements: the Base Support Level (BSL), Transportation Support Level (TSL), Capital Outlay Revenue Limit (CORL), and Soft Capital. All but the TSL are computed by multiplying a specific dollar amount by a school district’s student count (adjusted for various weights). The TSL, however, is computed by multiplying a specific dollar amount by a district’s pupil transportation route miles. BSL, TSL and CORL funds may be used for M&O or capital expenditures. Soft Capital funds may be used for capital items only. The sum of the 4 formula components equals what is referred to as a school district’s "equalization base," which is its total funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, the net assessed property value (NAV) of the district is multiplied by the statutory "Qualifying Tax Rate" (QTR) and “County Equalization” tax rate in order to determine the amount of funding that is assumed to come from local sources under the formula. If this combined amount exceeds the district’s equalization base, it is not entitled to Basic State Aid. If, however, its “local share” funding

**Table 1**

**FY 2007 Basic State Aid Summary**

	<u>General Fund</u>	<u>Permanent State School Fund</u>	<u>Prop 301 Sales Tax</u>	<u>Local Property Taxes</u>	<u>Total</u>
Basic State Aid from FY 2006	\$2,905,846,300 <sup>1/</sup>	\$43,223,000	\$ 86,280,500	\$1,795,886,500	\$4,831,236,300
Changes for FY 2006:					
FY 2006 Base Adjustment	46,000,000				46,000,000
Enrollment Growth	165,822,700				165,822,700
2% Deflator	81,250,200				81,250,200
Net Assessed Valuation Growth	(156,000,000)			156,000,000	0
Truth in Taxation	55,346,800			(55,346,800)	0
Endowment Earnings	(1,997,700)	1,997,700			0
TAPBI	2,000,000				2,000,000
Rollover – Remain at \$191 M	0				0
DJC	336,800				336,800
<b>Total – Cost after Formula Changes</b>	<b>\$3,098,605,100 <sup>2/</sup></b>	<b>\$45,220,700 <sup>2/</sup></b>	<b>\$86,280,500</b>	<b>\$1,896,539,700</b>	<b>\$5,126,646,000</b>

<sup>1/</sup> Includes \$191,293,800 appropriated for the “K-12 rollover” by Laws 2004, Chapter 278.

<sup>2/</sup> Represents appropriated Basic State Aid Funds. Proposition 301 monies for Basic State Aid are not appropriated.

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 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** **GF 46,000,000**

The JLBC recommends an increase of \$46,000,000 from the General Fund in FY 2007 in order to adjust the base budget for the program for higher than expected ADM growth in FY 2005. This higher growth permanently increases the base number of students being funded, which increases starting point Basic State Aid costs for FY 2006 and subsequent years. The FY 2006 budget assumed statewide ADM growth of 27,305 pupils (2.9%) in FY 2005, but current data indicate that it grew by 31,964 pupils (3.4%). For the prior year (FY 2004), statewide ADM increased by 27,372 pupils (3.0%) (see Table 2). Final Basic State Aid costs for FY 2006 will not be known until after 100<sup>th</sup> Day ADM counts for FY 2006 become available, which is not expected to occur for even preliminary data until March 2006. The recommended \$46,000,000 base adjustment for FY 2006 therefore is subject to considerable change and will be revised once preliminary ADM counts for FY 2006 are released.

Available to offset this estimated \$46,000,000 higher cost on a one-time basis only for FY 2006 are estimated carry-forward amounts of \$7,497,400 for Endowment Earnings and \$4,449,400 for the Special Education Fund from FY 2005. As a result, the net supplemental funding requirement for the department for FY 2006 for Basic State Aid and all other programs combined currently is estimated at about \$32 million (see Table 5).

**Enrollment Growth** **GF 165,822,700**

The JLBC recommends an increase of \$165,822,700 from the General Fund for enrollment growth for FY 2007. This total consists of approximately \$141,447,500 for ADM growth in school districts and \$24,375,200 for ADM growth in State Board-sponsored charter schools. These estimates are based on ADM projections shown in Tables 2 & 3.

Table 2 shows a currently projected total statewide ADM count in FY 2007 of 1,029,984 for school districts and charter schools combined. This would be an increase of 32,377 ADM pupils (3.25%) above our current estimate for FY 2006. The 3.25% estimate is the midpoint between the current JLBC Staff estimate of 3.3% and a 3.2% estimate from the University of Arizona Economic and Business Research Center (EBR). Both the JLBC and EBR projections are subject to substantial revision once ADM counts for FY 2005 are finalized and preliminary 100-day ADM counts for FY 2006 become available.

	Districts (including Charters)	State Charters	Total	Change	% Change
2004	860,496	73,238	933,734	27,372	3.0%
2005 est	887,534	78,164	965,698	31,964	3.4%
2006 est	915,536	82,071	997,607	31,909	3.3%
2007 est	943,809	86,175	1,029,984	32,377	3.25%

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

	2005 est	2006 est	2007 est
School Districts	886,039	914,041	942,314
Dist. Sponsored Charters	1,495	1,495	1,495
St. Board Spon'd Charters	78,164	82,071	86,175
<b>Total</b>	<b>965,698</b>	<b>997,607</b>	<b>1,029,984</b>

Additional factors that will affect Enrollment Growth costs for FY 2007 are discussed below.

*JTEDs* – The 3.25% ADM growth estimate for FY 2007 assumes that a cap on Basic State Aid funding to Joint Technological Education Districts (JTEDs) from Laws 2005, Chapter 329 and prohibitions on JTED expansion from Laws 2005, Chapter 294 will remain in effect for FY 2007 (see "JLBC Recommended Statutory Changes.").

Laws 2005, Chapter 329 capped state aid to JTEDs at the higher of their FY 2005 state aid or double their QTR revenues for FY 2006. Approximately \$15,000,000 would be added to the current \$165,822,700 enrollment growth funding recommendation for FY 2007 if continuation of the existing state aid cap was not assumed.

Extending the state aid cap through FY 2007 would be expected to freeze state aid at the FY 2005 level for all JTEDs except the Western Maricopa Education Center (West-MEC). West-MEC's state aid would grow by approximately \$700,000 in FY 2007 even under the extended cap because its "double the QTR" revenues would increase due to growth in local property values within the district for FY 2007. The \$700,000 estimate assumes that a current prohibition on the expansion of existing JTEDs from Laws 2005, Chapter 294 (explained below) also would be extended through FY 2007. Otherwise, one additional school district (Paradise Valley Unified) would join West-MEC in FY 2007, which would increase its tax base and its "double the QTR revenues by at least an additional \$1,393,300 under current estimates.

Laws 2005, Chapter 294 prohibited new JTEDs from forming in FY 2006 (except in Pima County) and also prohibited additional school districts from joining existing JTEDs that year. Extending this provision through FY 2007 again is assumed in the \$165,822,700 recommended amount for overall Basic State Aid enrollment growth for FY 2007.

The cost of allowing both the state aid cap from Laws 2005, Chapter 329 and the growth moratorium from Laws 2005, Chapter 294 to expire in FY 2007 is estimated at roughly \$15,000,000. This estimate is the sum of the \$9,000,000 approximate savings that is occurring for FY 2006 under the current state aid cap according to department records plus an estimated \$4,000,000 for Paradise Valley Unified and \$2,000,000 for Flagstaff Unified joining their respective JTEDs in FY 2007 if current caps are not extended. It also assumes no acceleration of "satellite conversions" (which qualify former non-JTED courses for JTED funding) for school districts that already are JTED members. A.R.S. § 15-395 requires school districts that wish to join an existing JTED to receive voter approval to do so during an election held in November of the prior year. Flagstaff Unified received voter approval in November 2004 to join a JTED in FY 2006, but was precluded from doing so by the cap on JTED growth for FY 2006 from Laws 2005, Chapter 294. Paradise Valley Unified received voter approval in November 2005 to join a JTED in FY 2007, but would be precluded from doing so in FY 2007 under an extended cap. No school district other than Paradise Valley sought voter approval in November 2005 to join a JTED in FY 2007 according to feedback obtained from county school superintendents during a December 2005 phone survey by the JLBC Staff. Only Flagstaff Unified and Paradise Valley Unified therefore would be expected to join a JTED in FY 2007 even if the current cap on "joinings" from Laws 2005, Chapter 294 was not continued.

For FY 2007, the JLBC recommends clarifying the intent of the "funding cap" language from Laws 2005, Chapter 329 with regard to JTED tax rates. While Chapter 329 intended to cap the program, one JTED increased its tax rate from

\$0.05 to \$0.06 per \$100 of NAV and another from \$0.05 to \$1.25 for FY 2006 under that language. The recommended change would cap FY 2007 JTED tax rates at their FY 2005 level. This change would not have a state fiscal impact because JTED property taxes are paid 100% by local property owners, since they do not qualify for Homeowner's Rebate funding pursuant to A.R.S. § 15-393(F).

*Rapid Decline* – The recommended \$165,822,700 increase for Enrollment Growth 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 2007. Section 14 of the Education Budget Reconciliation Bill for FY 2006 (Laws 2005, Chapter 329) requires Rapid Decline to be funded at the 50% level for FY 2006. The JLBC recommends including language similar to Section 14 in the FY 2007 Education Budget Reconciliation Bill in order to require 50% funding of Rapid Decline for FY 2007, which would continue the policy for this issue through FY 2007 (*see JLBC Recommended Statutory Changes*).

**TAPBI** **GF 2,000,000**

The JLBC recommends an increase of \$2,000,000 from the General Fund in FY 2007 for enrollment growth in the Technology Assisted Project Based Instruction (TAPBI) program. The recommended \$165,822,700 increase for Enrollment Growth described above does not include a specific adjustment for enrollment growth in the Technology Assisted Project Based Instruction program authorized by A.R.S. § 15-808, so a separate increase is recommended here. Laws 2005, Chapter 323 expanded the program by allowing sites to double their enrollment each year and by allowing up to 20% of pupils who are "accepted each academic school year" to be pupils who were not in public schools in the prior year, which increases Basic State Aid costs. The JLBC Staff estimates that this expansion is increasing Basic State Aid costs by roughly \$2,000,000 to \$4,000,000 for FY 2006 and that this cost will increase by another \$2,000,000 in FY 2007. "Post-cap" ADM data, however, are needed in order to assess the accuracy of these projections. Those data are not expected to be available until at least March 2005.

**2% Inflation Adjustment** **GF 81,250,200**

The JLBC recommends an increase of \$81,250,200 from the General Fund in FY 2007 for a 2% inflation adjustment in FY 2006. 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 (currently estimated at 2.7% for calendar year 2005), whichever is less. A.R.S. § 901.01 prohibits the Legislature from ever setting a



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. (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 "lease-purchase" interest paid to the State Land Department by buyers 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.

**Department of Juvenile Corrections GF 336,800**

The JLBC recommends an increase of \$336,800 from the General Fund in FY 2007 for Basic State Aid for the Department of Juvenile Corrections (DJC). The recommended increase would provide DJC with \$2,638,300 in total Basic State Aid funding for FY 2007. This recommendation assumes that DJC will experience 4.7% enrollment growth for FY 2007 based on currently available data for FY 2006. DJC receives Basic State Aid funding each year pursuant to A.R.S. § 15-1371.

**K-12 Rollover GF 0**

The JLBC recommends no funding change for the K-12 Rollover for FY 2007. 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 FY 2004 through FY 2006 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 2007 by deferring \$191,000,000 of FY 2007 Basic State Aid funding to FY 2008.

Continuation of the 1 month deferred payment will require statutory authorization. In addition, the FY 2007 budget would include an "advance appropriation" of \$191,300,000 for FY 2008 to recognize the state's deferred obligation (see *JLBC Recommended Statutory Changes*).

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

**Additional State Aid**

The JLBC recommends \$326,698,700 from the General Fund for Additional State Aid in FY 2007. 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 (3,087,000)**

The JLBC recommends a decrease of \$(3,087,000) from the General Fund in FY 2007 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 2006 pursuant to A.R.S. § 15-972(H) and that amount is \$(3,087,000) less than the program's FY 2006 appropriation. This allows the budget base for the program to be reduced by \$(3,087,000) for FY 2007.

**Net Assessed Value Growth GF 19,743,100**

The JLBC recommends an increase of \$19,743,100 from the General Fund in FY 2007 for Net Assessed Value (NAV) growth. This assumes that statewide NAV in FY 2007 will grow by 10% for all classes of property combined, 12% for Class III only (owner occupied homes) and 4% for existing property. It also assumes that average school district tax rates will decrease by 4%.

**Business Property Tax GF 12,829,400**

The JLBC recommends an increase of \$12,829,400 from the General Fund in FY 2007 to fund higher homeowner rebate costs that will occur in FY 2007 because of a reduction in the assessment ratio for business property in FY 2007 pursuant to Laws 2005, Chapter 302. That law will reduce the assessment ratio for Class I properties (commercial and industrial) from 25% in FY 2006 to 24.5% in FY 2007 (and ultimately to 20% by FY 2015). It also will increase the Homeowner's Rebate from 35% of a homeowner's primary property taxes for schools in FY 2006 to 36% in FY 2007 (and 40% by FY 2010). Chapter 302 also will increase the current Homeowner's Rebate cap from \$500 per home in FY 2006 to \$520 in FY 2007 (and \$600 by FY 2010). The higher (36%) Homeowner's Rebate percentage and higher (\$520) Homeowner's Rebate cap for FY 2007 will increase the cost of the Homeowner's Rebate by an estimated \$12,829,400 for FY 2007. Chapter 302 did not advance appropriate monies to pay for future increases in Homeowner's Rebate costs under the bill, so the estimated FY 2007 cost is included in this recommendation.

**OTHER STATUTORY FORMULA PROGRAMS**

**Special Education Fund**

The JLBC recommends \$35,232,300 and 1 FTE Position from the General Fund for special education vouchers in FY 2007. This amount would fund the following adjustments:



- 5) Extend through FY 2007 session law language in Laws 2005, Chapter 329 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 2007.
- 7) Extend through FY 2007 session law language in Laws 2005, Chapter 329 that caps state aid to an individual Joint Technology Education District at the greater of its FY 2005 state aid or double its Qualifying Tax Rate revenues for the current year.
- 8) Extend through FY 2007 session law language from Laws 2005, Chapter 294 that prohibits the formation of new JTEDs or the joining of existing JTEDs by additional school districts.
- 9) Cap JTED property tax rates for FY 2007 at the FY 2005 level.
- 10) Specify the official K-12 QTR and County Equalization Tax Rates for FY 2007, as adjusted for compliance with the Truth in Taxation law (A.R.S. § 41-1276) and the business property tax changes instituted by Laws 2005, Chapter 302.

**OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

**FY 2006 Supplemental**

The JLBC currently recommends \$31,669,300 from the General Fund for an ADE supplemental for FY 2006 (see *Table 5*). This includes \$46,000,000 for a projected Basic State Aid shortfall, \$290,000 for a projected Achievement Testing shortfall for caseload issues only and \$583,100 for a projected combined shortfall for CEC's and the ASDCSE program. It also includes offsets of \$(3,087,000) for Additional State Aid and \$(120,000) for OPIP due to projected surpluses for those programs for FY 2006 and offsets of \$(7,497,400) for Endowment Earnings and \$(4,499,400) from the Special Education fund due to available carry forward balances for those programs.

current \$46,000,000 Basic State Aid shortfall estimate therefore is subject to considerable change once FY 2006 ADM counts become available. Preliminary ADM counts for FY 2006 are not expected until March 2006.

**Joint Technological Education Task Force**

Laws 2005, Chapter 294 established a Joint Technological Education Task Force to study and provide recommendations regarding general JTED reform issues. Chapter 294 required the Committee to provide recommendations to the Legislature for modifying state law regarding JTED establishment and operation. Recommendations from the task force will be presented and discussed during the 2006 Legislative Session.

**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 6*).

As shown in *Table 6*, 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 (not included in the table).

The allocations shown in *Table 6* are estimates. Actual allocations will depend on sales tax collections for FY 2006 and FY 2007.

<b>FY 2006 Net Supplemental Requirement (JLBC Estimate)</b>	
<b><u>Program</u></b>	<b><u>FY 2006 Shortfall or (Surplus)</u></b>
Basic State Aid	\$46,000,000
Achievement Testing	290,000
Certificates of Educational Convenience	582,100
ASDCSE	1,000
Additional State Aid	(3,087,000)
OPIP	(120,000)
Endowment Earnings Carry-Forward	(7,497,400)
Special Education Fund Carry-Forward	<u>(4,499,400)</u>
<b>TOTAL (net GF shortfall)</b>	<b>\$31,669,300</b>

The Basic State Aid shortfall estimate is based mostly on reported FY 2005 Average Daily Membership (ADM) counts for school districts, since FY 2006 ADM counts are not yet available. Basic State Aid costs in FY 2006 will depend on both FY 2005 and FY 2006 ADM counts, since that funding is based on current year counts for growing districts and prior year counts for non-growing ones. The

**Table 6****Proposition 301 Monies**

<b><u>Revenues</u></b>	<b><u>FY 2005</u></b>	<b><u>FY 2006 *</u></b>	<b><u>FY 2007 *</u></b>
Estimated 0.6 cent Sales Tax Revenue	\$532,417,600	\$604,294,000	\$ 642,364,500
<b><u>Expenditures</u></b>			
Students FIRST Debt Service	65,814,700	65,805,000	65,805,000
Universities	55,992,300	64,618,700	69,187,100
Community Colleges	13,998,100	16,154,700	17,296,800
Tribal Assistance	516,600	531,300	542,900
Additional School Days	66,957,200	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000
Character Education	200,000	200,000	200,000
School Accountability	7,000,000	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>287,638,700</u>	<u>329,403,800</u>	<u>361,752,200</u>
<b>Total Expenditures</b>	<b>\$532,417,600</b>	<b>\$604,294,000</b>	<b>\$642,364,500</b>

\* Estimated

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**SUMMARY OF FUNDS - SEE AGENCY SUMMARY**


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