

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

A.R.S. § 15-231

	<b>FY 2006 Actual</b>	<b>FY 2007 Estimate</b>	<b>FY 2008 Approved</b>
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0 <sup>1/</sup>
Personal Services	1,047,800	1,365,200	1,406,000
Employee Related Expenditures	177,500	412,400	437,600
Professional and Outside Services	9,200	15,000	15,000
Travel - In State	16,800	63,000	63,000
Travel - Out of State	800	0	0
Other Operating Expenditures	90,400	277,800	277,100
Equipment	50,800	0	0
<b>OPERATING SUBTOTAL</b>	<b>1,393,300</b>	<b>2,133,400</b>	<b>2,198,700</b>
<b>SPECIAL LINE ITEMS</b>			
Basic State Aid	3,169,856,100	3,596,251,600	3,895,470,400 <sup>2/3/4/5/</sup>
Additional State Aid	294,126,200	324,224,300	359,013,100
Conditional English Learner Weight Funding	0	14,300,000 <sup>6/</sup>	14,300,000 <sup>6/</sup>
Special Education Fund	33,130,500	35,235,500	35,237,700
Other State Aid to Districts	621,700	983,900	983,900
Hayden-Winkelman School District	0	1,865,400	0
Colorado City School District	318,100	0	0
<b>PROGRAM TOTAL</b>	<b>3,499,445,900</b>	<b>3,974,994,100</b>	<b>4,307,203,800<sup>7/</sup></b>
<b>FUND SOURCES</b>			
General Fund	3,448,832,800	3,927,908,000	4,261,983,100
<u>Other Appropriated Funds</u>			
Permanent State School Fund	50,295,000	45,220,700	45,220,700
School Improvement Revenue Bond Debt Service Fund	318,100	1,865,400	0
<b>SUBTOTAL - Other Appropriated Funds</b>	<b>50,613,100</b>	<b>47,086,100</b>	<b>45,220,700</b>
<b>SUBTOTAL - Appropriated Funds</b>	<b>3,499,445,900</b>	<b>3,974,994,100</b>	<b>4,307,203,800</b>
Other Non-Appropriated Funds	510,877,400	545,446,100	642,133,100
<b>TOTAL - ALL SOURCES</b>	<b>4,010,323,300</b>	<b>4,520,440,200</b>	<b>4,949,336,900</b>

<sup>1/</sup> Includes 1 FTE Position funded from Special Line Items in FY 2008.

<sup>2/</sup> Laws 2007, Chapter 264 appropriation of \$46,000,000.

<sup>3/</sup> 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 \$45,220,700 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2008. (General Appropriation Act footnote)

<sup>4/</sup> 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)

<sup>5/</sup> 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 of Arizona 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)

<sup>6/</sup> The Conditional English Learner Weight Funding line item appropriation does not become effective unless the United States district court for the district of Arizona in the case of Flores v. State of Arizona, No. CIV 92-596-TUC-RCC, issues an order that the state has taken appropriate action to establish a program that addresses the orders in the case and, at least on an interim basis, the court will permit this appropriation to be fully implemented to determine whether the resulting ELL plans and available funding to implement the plans bear a rational relationship to the cost of implementing appropriate language acquisition programs. The Superintendent of Public Instruction shall notify the Executive Director of Legislative Council in writing if this condition is met. This notice shall include the date on which the condition is met. (General Appropriation Act footnote)

<sup>7/</sup> General Appropriation Act funds are appropriated as Operating Lump Sum with Special Line Items by Program.

**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.

**Operating Budget**

The budget provides \$2,198,700 and 28 FTE Positions from the General Fund for the operating budget in FY 2008. This amount funds the following adjustments:

**Statewide Adjustments**

The budget provides an increase of \$65,300 from the General Fund in FY 2008 for statewide adjustments. (Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)

**Special Line Items/Statutory Formula Programs**

**BASIC STATE AID**

**Basic State Aid Entitlement**

The budget provides \$3,895,470,400 for Basic State Aid in FY 2008. This amount consists of:

	<b>FY 2008</b>
General Fund	\$3,850,249,700
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 2008 because those monies are non-appropriated.

The included \$3,850,249,700 total includes a General Fund increase of \$284,918,800 and no change from the Permanent State School Fund. Components of the included General Fund increase 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) formula funding among school districts, enabling them all to spend approximately the same amount of formula 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 components: 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

Table 1

**FY 2008 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 2007	\$3,551,030,900	\$45,220,700	\$ 86,280,500	\$1,700,419,600	\$5,382,951,700
Changes for FY 2008:					
Base Adjustment - ADM	(20,443,600)				(20,443,600)
Enrollment Growth	164,633,100				164,633,100
2% Inflator	94,376,600				94,376,600
Additional Base Level Increase	46,000,000				46,000,000
Kindergarten Group B Weight	80,000,000				80,000,000
Joint Technology Districts	27,000,000				27,000,000
Charter Additional Assistance	3,000,000				3,000,000
TAPBI	1,000,000				1,000,000
Net Assessed Valuation Growth	(231,361,900)			231,361,900	0
Truth in Taxation	135,014,600			(135,014,600)	0
<b>Total – Cost after Formula Changes</b>	<b>\$3,850,249,700</b> <sup>1/</sup>	<b>\$45,220,700</b> <sup>1/</sup>	<b>\$86,280,500</b>	<b>\$1,796,766,900</b>	<b>\$5,778,517,800</b>

<sup>1/</sup> Represents appropriated Basic State Aid Funds. Proposition 301 monies for Basic State Aid are not appropriated.

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) in order to determine the amount of funding that is assumed to come from local sources under the formula. If this 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 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 formula prescribed for traditional public schools, which is in A.R.S. § 15-943. Additional Assistance funding amounts are established in A.R.S. § 15-185.B4 and for FY 2008 equal \$1,445.25 per pupil for Grades K-8 and \$1,684.41 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 - Caseload**

The budget provides a decrease of \$(20,443,600) from the General Fund in FY 2008 for a caseload base adjustment. The adjustment is due to lower than projected ADM growth in FY 2006. This lower growth permanently reduces the base number of students being funded through the K-12 equalization formula, which decreases the "starting point" for Basic State Aid costs for FY 2008.

**Enrollment Growth**

The budget provides an increase of \$164,633,100 from the General Fund for enrollment growth for FY 2008. This total consists of approximately \$139,938,100 for ADM growth in school districts and \$24,695,000 for ADM growth in State Board-sponsored charter schools. These

estimates are based on ADM growth assumptions shown in *Table 2*.

*Table 2* shows an assumed total statewide ADM count of 1,061,757 for school districts and charter schools combined for FY 2008. This would be an increase of 30,946 ADM pupils (3.0%) above the current estimate for FY 2007.

The included \$164,633,100 increase for Enrollment Growth assumes continued funding of the Rapid Decline formula in A.R.S. § 15-942 at 50% of the full formula cost for FY 2008. Section 16 of the K-12 Education Budget Reconciliation Bill (BRB) for FY 2008 (Laws 2007, Chapter 264) requires Rapid Decline to be funded at the 50% level for FY 2008.

	Districts (including Charters) *		State Charters	Total	Change	% Change
2005	888,874	82,111		970,985	37,251	4.0%
2006	914,653	83,568		998,221	27,236	2.8%
2007 est	942,541	88,270		1,030,811	32,590	3.25%
2008 est	969,073	92,684		1,061,757	30,946	3.0%

\* Includes 1,495 charter school ADM for FY 2005, 1,073 for FY 2006 and 1,073 (estimated) for FY 2007 and FY 2008.

**2% Inflation Adjustment**

The budget provides an increase of \$94,376,600 from the General Fund in FY 2008 for a 2% inflation adjustment. 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. (See *Table 1*.) (See "Charter School Additional Assistance" narrative below for a description of an additional inflation adjustment for that program for FY 2008.)

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% or by the change in the GDP price deflator (currently estimated at 3.2% for calendar year 2006), 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 approved 2% increase would have resulted in a base level of \$3,196.20 per pupil for FY 2008, but this is further increased to \$3,226.88 by an additional inflation adjustment described below. The 2% increase in transportation route mile funding will provide \$1.81 or \$2.23 per route mile for FY 2008, 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.

**Additional Base Level Increase**

The K-12 Education BRB appropriates \$46,000,000 from the General Fund in FY 2008 for an additional Base Level increase. This funding increases the base level by an additional 1% (rounded from 0.98%) for FY 2008 for a total increase of approximately 3% for the year. The K-12 BRB requires the \$46,000,000 amount to be used to provide salary and benefit increases for non-administrative school personnel and to supplement and not supplant any existing monies for that purpose.

**Kindergarten Weight**

The budget provides an increase of \$80,000,000 from the General Fund in FY 2008 to fund an increase in the Kindergarten “Group B” funding weight required by Laws 2006, Chapter 353 (the K-12 Education BRB for FY 2007). Chapter 353 established a new Kindergarten “Group B” funding weight in A.R.S. § 15-943(2b) and set the weight at 0.835 for FY 2007 and 1.352 for FY 2008 and beyond. The estimated cost of the weight increase for FY 2008 is \$80,000,000.

**Joint Technological Education Districts**

The budget provides an increase of \$27,000,000 from the General Fund in FY 2008 to fund state aid costs for Joint Technological Education Districts (JTEDs) (see Table 3). This amount relates to Laws 2006, Chapter 341, which ended statutory restrictions on JTEDs at the end of FY 2007. The \$27,000,000 increase includes the following projected amounts:

- \$14,000,000 to eliminate temporary deductions to the JTED funding formula. Under a FY 2007 session law, JTEDs were not fully funded for their enrollment. Instead, for FY 2007 they received either the same amount of state aid that they received for FY 2006 or state aid equal to double their FY 2007 Qualifying Tax Rate (QTR) funding. The assumed cost of eliminating these deductions in FY 2008 is \$14,000,000.
- \$5,000,000 for enrollment growth occurring in FY 2007 and FY 2008.
- \$3,000,000 for additional satellite conversions. These conversions occur when existing Career and Technical Education (CTE) “stand alone” courses in local high schools become reclassified as JTED courses, which typically qualifies them for more funding.
- \$12,000,000 for a new Pima County JTED, pursuant to Laws 2006, Chapter 341. This legislation prohibited additional school districts from joining or voting to join a JTED during FY 2007, except in Pima County. During the November 2006 General Election, 10 school districts in Pima County voted to form a JTED and that new JTED is scheduled to open in FY 2008. The budget assumes \$12,000,000 in first-time state aid costs for that new JTED in FY 2008.
- \$6,000,000 for increased charter school participation. Under Chapter 341, charter schools no longer have to share 1.0 ADM funding with JTEDs if a charter pupil also attends a JTED, which is expected to increase

charter school participation in JTED programs in FY 2008.

- \$(6,000,000) for stricter course requirements. Chapter 341 establishes stricter requirements for JTED courses, which is expected to disqualify some current JTED courses from state funding in FY 2008. The assumed state savings for this issue for FY 2008 is \$(6,000,000).
- \$(7,000,000) to fund JTED state aid at 91.8% of the full formula amount for FY 2008, as required by the K-12 Education BRB. That law, however, also includes a “hold harmless” provision that stipulates that a JTED shall not receive less equalization formula funding in FY 2008 than it received in FY 2007, apart from reductions due to changes in student counts, net assessed property values or other technical factors. The assumed state savings for this issue for FY 2008, including the “hold harmless” provision, is \$(7,000,000).

<u>Item</u>	<u>FY 2008</u>
• Eliminate current deduct (based on FY 2006 enrollments)	\$14,000,000
• Enrollment Growth for FY 2007 & FY 2008	5,000,000
• Additional Satellite Conversions	3,000,000
• New Pima County JTED	12,000,000
• Increased charter school participation	6,000,000
• Stricter course requirements	(6,000,000)
• Fund state aid @ 91.8%	(7,000,000)
<b>Total</b>	<b>\$27,000,000</b>

**Charter School Additional Assistance**

The budget provides an increase of \$3,000,000 from the General Fund in FY 2008 for an additional 2.2% increase in charter school “Additional Assistance” funding. This increase is in addition to the 2% increase provided under the “2% Inflation Adjustment” issue described above. Those 2 issues combined therefore increase charter school Additional Assistance funding by 4.2% per pupil for FY 2008. With these 2 increases, charter school Additional Assistance funding will equal \$1,445.25 per pupil for Grades K-8 and \$1,684.41 per pupil for Grades 9-12 for FY 2008.

**TAPBI**

The budget provides an increase of \$1,000,000 from the General Fund in FY 2008 for enrollment growth in the Technology Assisted Project Based Instruction (TAPBI) program authorized in A.R.S. § 15-808. The \$164,633,100 funding increase for K-12 enrollment growth for FY 2008 described above does not include a specific adjustment for TAPBI enrollment growth, so a separate increase appears 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. This budget assumes that this continued expansion will increase Basic State Aid costs by \$1,000,000 in FY 2008.

**Net Assessed Valuation (NAV) Growth**

The budget provides a decrease of \$(231,361,900) from the General Fund in FY 2008 due to growth in statewide property values. The provided \$(231,361,900) decrease assumes that the combined Net Assessed Value (NAV) of all properties statewide will grow by 15.1% for FY 2008. Growth in statewide NAV increases “local share” funding for Basic State Aid because the K-12 “Qualifying Tax Rate” (QTR) generates 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 assumed \$(231,361,900) 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 budget provides an increase of \$135,014,600 from the General Fund in FY 2008 for “Truth in Taxation” (TNT) pursuant to A.R.S. § 41-1276, which requires a lowering of the K-12 QTR 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 the state must make up the difference.

As of February 15, 2007, the JLBC reported that the FY 2008 QTR would be \$1.60 or \$3.20 (depending on the type of district and rounded to the nearest penny) per \$100 of NAV (see Table 4). These rates are formally established for FY 2008 in the K-12 Education BRB.

The State Equalization Assistance Property Tax established in A.R.S. §15-994 is not affected by TNT for FY 2008 because that tax was suspended for FY 2007 through FY 2009 by Section 23 of Laws 2006, Chapter 254.

<b>Estimated TNT Tax Rates</b>			
<b>Tax Rate</b>	<b>FY 2007</b>	<b>FY 2008</b>	
Qualifying Tax Rate (QTR)			
• High School districts and elementary districts located within a high school district	\$1.7394	\$1.6020	
• Unified districts and elementary districts not located within a high school district	\$3.4788	\$3.2040	
• State Equalization Tax Rate (suspended)	\$0.0000	\$0.0000	

**Endowment Earnings**

The budget provides no change in funding from the Permanent State School Fund for K-12 Endowment Earnings in FY 2008. This maintains the portion of K-12 Endowment Earnings earmarked for School Facilities Board revenue bond debt service at \$27,042,300 in FY 2008 and the amount available to help fund Basic State Aid in FY 2008 at \$45,220,700.

For FY 2008, the JLBC Staff currently estimates that expendable K-12 endowment earnings will equal \$172,960,900, which would be a \$48,905,500 increase above the current \$124,055,400 JLBC Staff estimate for FY 2007. 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.

Endowment Earnings consist of interest on securities held in the Permanent State School Fund, receipts from leases of state lands and interest paid to the State Land Department by buyers of state trust land who purchase land on an installment basis. “Principal” on those purchases is not considered expendable and is instead deposited into the Permanent State School Fund for investment by the State Treasurer.

**ADDITIONAL STATE AID  
 (“Homeowner’s Rebate” and “1% Cap”)**

**Additional State Aid**

The budget provides \$359,013,100 from the General Fund for Additional State Aid in FY 2008. This amount would fund the adjustments described below.

Additional State Aid is authorized by A.R.S. § 15-972, which for FY 2008 will require the state to pay 37% of each homeowner’s school district primary property taxes, up to a maximum of \$540 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.

The approved amount includes no funding change for continuing a session law “soft cap” on school district desegregation expenditures pursuant to Section 15 of the K-12 Education BRB. That bill prohibits a school district from increasing its desegregation expenditures for FY 2008 other than for enrollment growth and inflation. The original desegregation “soft cap” was established for FY 2005 by Laws 1994, Chapter 278. A desegregation expenditure “soft cap” affects Homeowner’s Rebate costs because those expenditures are funded with primary property taxes and those taxes qualify for Homeowner’s Rebate and 1% cap funding.

**Net Assessed Value Growth**

The budget provides an increase of \$23,188,900 from the General Fund in FY 2008 for Net Assessed Value (NAV) growth. This assumes that statewide NAV in FY 2008 will

grow by 15.1% for all classes of property combined (8.6% for existing property and 6.5% for new construction). It also assumes 18.3% growth for Class III properties (owner occupied homes, both new and existing) and that average school district tax rates will decrease by 7.5%.

### **Business Property Tax**

The budget provides an increase of \$11,599,900 from the General Fund in FY 2008 to fund higher homeowner rebate costs that will occur in FY 2008 because of a reduction in the assessment ratio for business property in FY 2008 pursuant to Laws 2005, Chapter 302. That law reduces the assessment ratio for Class I properties (commercial and industrial) from 24.5% in FY 2007 to 24% in FY 2008 (and ultimately to 20% by FY 2016) (*Laws 2007, Chapter 258 accelerates this change, as described below*). It also increases the Homeowner's Rebate from 36% of a homeowner's primary property taxes for schools in FY 2007 to 37% in FY 2008 (and 40% by FY 2011). In addition, Chapter 302 increases the current Homeowner's Rebate cap from \$520 per home in FY 2007 to \$540 in FY 2008 (and \$600 by FY 2011). The higher (37%) Homeowner's Rebate percentage and higher (\$540) Homeowner's Rebate cap for FY 2008 will increase the cost of the Homeowner's Rebate by an estimated \$11,599,900 that year. Chapter 302 did not advance appropriate monies to pay for future increases in Homeowner's Rebate costs, so the estimated FY 2008 cost is included in the department's FY 2008 budget.

The Tax Relief Package bill for FY 2008 (Laws 2007, Chapter 258) accelerates the Laws 2005, Chapter 302 reductions in the assessment ratio for business properties starting in FY 2009. As a result of this acceleration, the assessment ratio for business property will be reduced to 20% by FY 2012 rather than FY 2016 (the date originally established by Laws 2005, Chapter 302). As this acceleration does not commence until FY 2009, it will not affect Additional State Aid costs in FY 2008.

### **OTHER STATUTORY FORMULA PROGRAMS**

#### ***Conditional English Learner Weight Funding***

The budget provides \$14,300,000 from the General Fund for Conditional English Learner Weight Funding for FY 2008. This amount is unchanged from FY 2007. This amount maintains funding that was originally appropriated by Laws 2006, Chapter 4 to increase the English Learner "Group B" funding weight in A.R.S. § 15-943(2b) from 0.115 in FY 2006 to 0.140 in FY 2007. That weight increase and associated funding were appropriated on the condition that the United States District Court in Flores v. State of Arizona would issue an order that Chapter 4 "addresses the order in the case," at least on an interim basis. That condition has not been met to date, so the conditional weight increase has not occurred. This line item maintains existing funding for this issue. The same conditions as existed for implementing the higher weight for FY 2007 are retained for FY 2008.

The conditional \$14,300,000 amount does not include funding for the existing English Learner Group B weight of 0.115. That weight will generate an estimated \$56,357,600 in Basic State Aid funding for school districts and charter schools in FY 2008 under current projections, which is included the overall Basic State Aid budget for FY 2008.

#### ***Special Education Fund***

The budget provides \$35,237,700 and 1 FTE Position from the General Fund for special education vouchers in FY 2008. This amount funds the following adjustments:

#### **Statewide Adjustments**

The budget provides an increase of \$2,200 from the General Fund in FY 2008 for statewide adjustments. (*Please see the Statewide Adjustments section at the end of this Appropriations Report for details.*)

#### **Enrollment Growth and Inflation**

The budget provides no change in General Fund funding in FY 2008 for enrollment growth and inflation, as the JLBC Staff estimates that the Special Education Fund will have enough carry-forward monies available at the end of FY 2007 to cover these costs for FY 2008. The costs are estimated at \$471,600 for enrollment growth and \$382,600 for a 2% inflation adjustment.

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, Department of Economic Security (DES), Department of Health Services (DHS), or the Administrative Office of the Courts) [A.R.S. § 15-1182].

#### ***Other State Aid to Districts***

The budget provides \$983,900 from the General Fund for Other State Aid to Districts in FY 2008. This amount is unchanged from FY 2007.

The approved amount includes \$880,200 (unchanged) for Certificates of Educational Convenience and \$103,700 (unchanged) for Assistance to School Districts for Children of State Employees (ASDCSE).

Certificates of Educational Convenience (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 that is licensed and supervised by DES or 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.

The ASDCSE 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.

#### ***Hayden-Winkelman School District***

The budget provides no funding from the School Improvement Revenue Bond Debt Service Fund to the Hayden-Winkelman School District in FY 2008, which eliminates one-time funding for this issue. Laws 2006, Chapter 353 appropriated \$1,865,400 in one-time funding from the School Improvement Revenue Bond Debt Service Fund in FY 2007 to the department to distribute to the Hayden-Winkelman Unified School District to redeem existing bonds. Chapter 353 included the following provisions: 1) required the district to repay the \$1,865,400 amount in 3 annual installments at 4% interest starting on July 1, 2008 and ending on July 1, 2010; 2) prohibited the district from levying a primary property tax rate higher than \$11.89 minus any reductions required by Truth in Taxation; and 3) prohibited the district from increasing its secondary property tax rate through new budget overrides and bond issuances.

#### ***Colorado City School District***

The budget provides no funding from the School Improvement Revenue Bond Debt Service Fund for the Colorado Unified School District in FY 2008. This eliminates one-time funding provided to the district by Laws 2006, Chapter 343. Chapter 343 appropriated \$318,100 in one-time funding from the School Improvement Revenue Bond Debt Service Fund to the Colorado City School District in FY 2006 in order to help the district address cash flow problems resulting from a temporary high rate of tax delinquencies. Chapter 343 requires the Superintendent of Public Instruction to withhold a portion of the district's Basic State Aid entitlement in FY 2007 through FY 2011 in order to pay back the appropriated amount.

#### ***Additional Legislation***

##### ***K-12 Education Budget Reconciliation Bill***

In addition to provisions described elsewhere, the K-12 Education Budget Reconciliation Bill for FY 2008 (Laws 2007, Chapter 264) includes the following provisions:

- 1) Requires school employees who must submit fingerprints as a condition of employment to submit identify verified fingerprints to the Arizona Department of Public Safety (DPS), effective January 1, 2008.
- 2) Allows a school district or charter school to contract for fingerprinting services.

- 3) Requires DPS to provide digital storage of identity verified fingerprints.
- 4) Appropriates \$125,000 to DPS for fingerprinting issues.
- 5) Establishes an American Competitiveness Project Fund that would receive donations dedicated to addressing academic competitiveness issues.
- 6) Allows school districts to have a shorter than 36-week school year using longer days.
- 7) Removes the current range of fees for teacher proficiency exams and instead stipulates that fees shall not exceed the fees assessed by the test publisher.
- 8) Adds 3 members to the Arizona E-learning Task Force.
- 9) Extends all E-learning program deadlines by 1 year and allows distribution of program monies through FY 2011 (previously FY 2010).
- 10) As session law, authorizes the department or Auditor General to conduct ADM audits of school districts and charter schools.
- 11) As session law, establishes a Joint Legislative Study Committee on K-12 School Funding and Best Practices ("Committee").
- 12) Requires the Committee to review and make recommendations on public school maintenance and operations funding and on best practices in school programs and school finance.
- 13) Requires the Committee to submit an initial report by December 1, 2007 and a final report by December 1, 2008.

#### ***Other Issues***

##### ***Postsecondary Education Grants***

Laws 2007, Chapter 280 (postsecondary education grants; implementation) requires school districts and charter schools to participate in and promote to students the Early Graduation Scholarship Program. The program provides postsecondary education scholarships to full-time students who graduate early from high school. For students who graduate from high school at least 1 year early, the maximum scholarship amount is \$1,250, or the actual cost of tuition, books and fees, whichever is less, in the pupil's first academic year of postsecondary instruction and \$750 in their second year. For students who graduate from high school one semester early, the maximum scholarship amount is \$1,000 in the pupils' first year of postsecondary instruction and \$500 in their second.

In order to fund the program, Chapter 280 entitles school districts and charter schools to receive full-year Basic State Aid funding for students who graduate early (currently they receive no funding or partial year funding for them, depending on the situation), but requires the department to essentially transfer a portion of that new funding to the Early Graduation Scholarship Fund established by the bill in order to fund the program. The required "transfer" amounts are \$2,200 per pupil for students who graduate at least 1 year

early and \$1,700 per pupil for students who graduate one semester early.

***Payback Extensions, Receivership and TSL/TRCL***

Laws 2007, Chapter 234 extends by 3 or 4 years (depending on the school district) the payback period for 5 school districts with recent budget errors. (The normal payback period in A.R.S. §15-915 is 1 year, with 2 years allowed in case of hardship.) The affected districts are Cedar Unified, Eloy Unified, Indian Oasis-Baboquivari Unified, Saddle Mountain Unified, and Tombstone Unified. Chapter 234 also places the Saddle Mountain Unified School District into immediate receivership pursuant to A.R.S. §15-103 and establishes a Joint Legislative Study Committee on K-12 School District Receivership, which is required to submit initial findings by December 15, 2007. In addition, Chapter 234 requires the Transportation Revenue Control Limit (TRCL) of a school district to be adjusted upward to equal its Transportation Support Level (TSL) if its TRCL otherwise would be less than its TSL.

***Payback Extension and Receivership***

Laws 2007, Chapter 238 extends by 3 years the payback period for recent budget errors made by the Union Elementary School District. It also places the district under immediate receivership pursuant to A.R.S. §15-103.