

Department of Education
Formula Programs

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DESCRIPTION	FY 2006 ACTUAL	FY 2007 ESTIMATE	FY 2008 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,047,800	1,365,200	1,365,200
Employee Related Expenditures	177,500	412,400	413,100
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
OPERATING SUBTOTAL	1,393,300	2,133,400	2,133,400
SPECIAL LINE ITEMS			
Basic State Aid	3,169,856,100	3,610,551,600	3,879,067,800
Additional State Aid	294,126,200	324,224,300	356,970,200
Special Education Fund	33,130,500	35,235,500	35,235,500
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
PROGRAM TOTAL	3,499,445,900	3,974,994,100	4,274,390,800

FUND SOURCES			
General Fund	3,448,832,800	3,927,908,000	4,229,170,100
<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
SUBTOTAL - Other Appropriated Funds	50,613,100	47,086,100	45,220,700
SUBTOTAL - Appropriated Funds	3,499,445,900	3,974,994,100	4,274,390,800
Other Non-Appropriated Funds	510,877,400	545,446,100	590,260,100
TOTAL - ALL SOURCES	4,010,323,300	4,520,440,200	4,864,650,900

CHANGE IN FUNDING SUMMARY	FY 2007 to FY 2008 JLBC	
	\$ Change	% Change
General Fund	301,262,100	7.7%
Other Appropriated Funds	(1,865,400)	(4.0%)
Total Appropriated Funds	299,396,700	7.5%
Non Appropriated Funds	44,814,000	8.2%
Total - All Sources	344,210,700	7.6%

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.

CHANGES FROM FY 2007

Operating Budget

The JLBC includes \$2,133,400 and 28 FTE Positions from the General Fund for the operating budget in FY 2008. This amount is unchanged from FY 2007.

Special Line Items/Statutory Formula Programs

BASIC STATE AID

Basic State Aid Entitlement

The JLBC includes \$3,879,067,800 for Basic State Aid in FY 2008. This amount consists of:

	FY 2008
General Fund	\$3,833,847,100
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 2008 because those monies are non-appropriated.

The included \$3,879,067,800 total includes a General Fund increase of \$268,516,200 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 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) 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 (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

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	\$3,565,330,900	\$45,220,700	\$ 86,280,500	\$1,671,551,600	\$5,368,383,700
Changes for FY 2008:					
Enrollment Growth	182,850,000				182,850,000
2% Inflater	83,931,500				83,931,500
Kindergarten Group B Weight	80,000,000				80,000,000
Joint Technology Districts	34,000,000				34,000,000
TAPBI	1,000,000				1,000,000
Net Assessed Valuation Growth	(203,444,500)			203,444,500	0
Truth in Taxation	<u>90,179,200</u>			<u>(90,179,200)</u>	<u>0</u>
Total – Cost after Formula Changes	\$3,833,847,100 ^{1/}	\$45,220,700 ^{1/}	\$86,280,500	\$1,784,816,900	\$5,750,165,200

^{1/} Represents appropriated Basic State Aid Funds. Proposition 301 monies for Basic State Aid are not appropriated.

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 for FY 2007 equal \$1,387.25 per pupil for Grades K-8 and \$1,616.81 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

Enrollment Growth **GF 182,850,000**

The JLBC includes an increase of \$182,850,000 from the General Fund for enrollment growth for FY 2008. This total consists of approximately \$155,500,000 for ADM growth in school districts and \$27,350,000 for ADM growth in State Board-sponsored charter schools. These estimates are based on ADM projections shown in *Table 2*.

Table 2 shows a currently projected total statewide ADM count in FY 2008 of 1,069,664 for school districts and charter schools combined. This would be an increase of 34,510 ADM pupils (3.3%) above the current estimate for FY 2007. The 3.3% estimate equals the current projection from both the JLBC Staff and the University of Arizona Economic and Business Research Center (EBR).

The included \$182,850,000 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 19 of the K-12 Budget Reconciliation Bill for FY 2007 (Laws 2006, Chapter 353) requires Rapid Decline to be funded at the 50% level for FY 2007. The JLBC would include language similar to Section 19 in the FY 2008 Education Budget Reconciliation Bill in order to continue existing policy for this issue (see “Statutory Changes” section below).

Table 2

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

	Districts (including Charters)*	State Charters	Total	Change	% Change
2005	888,874	82,111	970,985	37,251	4.0%
2006 est	917,678	84,886	1,002,564	31,579	3.25%
2007 est	946,024	89,130	1,035,154	32,590	3.25%
2008 est	977,757	91,907	1,069,664	34,510	3.3%

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

2% Inflation Adjustment **GF 83,931,500**

The JLBC includes an increase of \$83,931,500 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 “Statutory Changes” section below).

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 included 2% increase would result in a base level of \$3,196.20 per pupil for FY 2008. The 2% increase in transportation route mile funding would 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. The total estimated cost for the 2% inflation adjustment for Basic State Aid and special education vouchers combined for FY 2008 is \$84,314,100.

Kindergarten Weight **GF 80,000,000**

The JLBC includes 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 Education Budget Reconciliation Bill 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 JLBC Staff estimates that it will cost \$80,000,000 fund the required weight increase for FY 2008.

English Learner Weight **GF 0**

The JLBC includes \$14,300,000 from the General Fund in FY 2008 to maintain funding at the FY 2007 appropriated level for an English Learner Group B weight increase authorized by Laws 2006, Chapter 4. Chapter 4 appropriated \$14,300,000 from the General Fund in FY 2007 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, however, were appropriated on the condition that the United States District Court in *Flores v. State of Arizona* issues an order that Chapter 4 “addresses the order in the case,” at least on an interim basis. On April 25, 2006, United States District Judge Raner Collins issued an order that Chapter 4 did not satisfy prior court orders in this case. On August 23, 2006, however, the United States Ninth Circuit Court overturned that ruling and sent the case back to Judge Collins stating that he should have held an evidentiary hearing and made findings of fact in the case because of changes in education funding that have occurred since the original 2000 ruling

in the case. Judge Collins has scheduled evidentiary hearings for January 9-12, 2007. A final determination therefore has not yet been made regarding whether the department can allocate funding appropriated for the higher (0.140) EL weight for FY 2007. The JLBC maintains funding for the higher (0.140) weight for FY 2008.

TAPBI GF 1,000,000

The JLBC includes 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 included \$182,850,000 increase for Enrollment Growth described above does not include a specific adjustment for TAPBI enrollment growth, so a separate increase is included 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 will increase Basic State Aid costs by an additional \$1,000,000 in FY 2008.

Joint Technological Education Districts GF 34,000,000

The JLBC Basic State Aid total assumes that an increase of \$34,000,000 from the General Fund would be required in order to fully fund state aid costs for Joint Technological Education Districts (JTEDs) in FY 2008 (see Table 3). This estimate is consistent with Laws 2006, Chapter 341, which ended the current statutory restrictions on JTEDs at the end of FY 2007. The \$34,000,000 would include:

- \$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 receive 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 dollar estimate of these deductions is \$14,000,000. With Chapter 341, existing JTEDs would receive full funding.
- \$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. Additional satellite conversions for FY 2007, however, would not have generated more funding because of the temporary deductions to the JTED funding formula mentioned above. Elimination of those temporary deductions for FY 2008, however, will restore the incentive for additional satellite conversions to occur.
- \$12,000,000 for a new Pima County JTED, as required by Laws 2006, Chapter 341 (see below).

- \$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. This is expected to increase charter school participation in JTED programs, with an estimated cost of \$6,000,000 for 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. The estimated savings for this issue for FY 2008 is \$(6,000,000).

Estimated JTED Cost Increases	
Item	FY 2008
• 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)
Total	\$34,000,000

As noted above, the \$34,000,000 estimate includes \$12,000,000 in anticipated new General Fund costs due to the scheduled opening of a new JTED in Pima County in FY 2008. Laws 2006, Chapter 341 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 expected to open in FY 2008. The JLBC Staff currently estimates that the Pima County JTED will qualify for roughly \$12,000,000 in Basic State Aid funding in FY 2008. This estimate is based on the number of high school students enrolled in the 10 school districts that have voted to join the Pima County JTED and on student participation rates observed for other urban JTEDs. The \$12,000,000 estimate is subject to considerable change, however, once budget data become available from the new district.

Net Assessed Valuation (NAV) Growth GF (203,444,500)

The JLBC includes a decrease of \$(203,444,500) from the General Fund in FY 2008 due to growth in statewide property values. The included \$(203,444,500) decrease assumes that the combined Net Assessed Value (NAV) of all properties statewide will grow by 13.2% 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 estimated \$(203,444,500) 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” GF 90,179,200

The JLBC includes an increase of \$90,179,200 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.

Data on local property values that are needed in order to precisely compute TNT reductions for FY 2008 will not be available until mid February 2007. Based on currently available data, however, we estimate that TNT will cost the state General Fund \$90,179,200 for FY 2008. This assumes that TNT will require the K-12 QTR to be reduced from \$3.4788 currently to \$3.2942 in FY 2008 (see Table 4 and “Statutory Changes” section below). (The K-12 County Equalization tax rate will not be affected by TNT for FY 2008, as that tax rate has been suspended for FY 2007 through FY 2009 by Laws 2006, Chapter 354.)

<u>Tax Rate</u>	<u>FY 2007</u>	<u>FY 2008</u>
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$1.7394	\$1.6471
• Unified districts and elementary districts not located within a high school district	\$3.4788	\$3.2942
• County Equalization Tax Rate (all districts)	\$0.0000	\$0.0000

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 2/3^{rds} 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 15 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.

Endowment Earnings OF 0

The JLBC includes 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 \$113,979,400, which would be a \$9,593,300 increase above the current \$104,386,100 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. (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.

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

Additional State Aid

The JLBC includes \$356,970,200 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 included amount assumes continuation of a session law “soft cap” on school district desegregation expenditures from Section 18 of Laws 2006, Chapter 353 (the K-12 Education Budget Reconciliation Bill for FY 2007) (see “Statutory Changes” section below). Chapter 353 prohibits a school district from increasing its desegregation expenditures for FY 2007 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 GF 21,146,000

The JLBC includes an increase of \$21,146,000 from the General Fund in FY 2008 for Net Assessed Value (NAV) growth. This assumes that statewide NAV in FY 2008 will grow by 13.2% for all classes of property combined (5.6% for existing property and 7.6% for new construction). It

also assumes 14.7% growth for Class III properties (owner occupied homes, both new and existing) and that average school district tax rates will decrease by 6%.

Business Property Tax GF 11,599,900

The JLBC includes 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 is reducing 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 2015). It also will increase 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 2010). Chapter 302 also is increasing the current Homeowner's Rebate cap from \$520 per home in FY 2007 to \$540 in FY 2008 (and \$600 by FY 2010). 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 for FY 2008. Chapter 302 did not advance appropriate monies to pay for future increases in Homeowner's Rebate costs under the bill, so the estimated FY 2008 cost is included here for this program.

OTHER STATUTORY FORMULA PROGRAMS

Special Education Fund

The JLBC includes \$35,235,500 and 1 FTE Position from the General Fund for special education vouchers in FY 2008. This amount is unchanged from FY 2007. No General Fund increase is included because the JLBC Staff estimates that the Special Education Fund will have enough carry forward monies available in FY 2008 to cover anticipated FY 2008 costs for enrollment growth (estimated at \$471,600) and 2% inflation (estimated at \$382,600).

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

The included 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 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 JLBC includes no funding from the School Improvement Revenue Bond Debt Service Fund to the Hayden-Winkelman School District in FY 2008. This amount includes the following adjustment:

One-Time Funding for Bond Refinancing OF (1,865,400)

The JLBC includes a decrease of \$(1,865,400) from the School Improvement Revenue Bond Debt Service Fund in FY 2008 to reflect one-time funding. Laws 2006, Chapter 353 appropriated \$1,865,400 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) requires 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) prohibits the district from levying a primary property tax rate higher than \$11.89 minus any reductions required by Truth in Taxation; and 3) prohibits the district from increasing its secondary property tax rate through new budget overrides and bond issuances.

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FORMAT — Operating Lump Sum with Special Line Items by Program

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 \$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.

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 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.

STATUTORY CHANGES

The JLBC would include the following statutory changes:

- 1) Increase the formula funding “base level” in A.R.S. § 15-901(B2) to \$3,196.20 for a 2% inflator.
- 2) 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).
- 3) Extend through FY 2008 the “soft cap” on desegregation expenditures established by Laws 2006, Chapter 353.

- 4) Extend through permanent law an existing session law provision in Laws 2006, Chapter 353 that allows a shorter than 36-week school year using longer days.
- 5) Continue to fund the Rapid Decline formula in A.R.S. § 15-942 at 50% for FY 2008.
- 6) Specify the official K-12 QTR for FY 2008, 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

Excess Utilities

The Baseline does not include changes in Excess Utilities funding for FY 2008. Pursuant to A.R.S. § 15-910, Subsection A (as amended by Proposition 301 during the November 2000 General Election), statutory authorization to exempt Excess Utilities funding from the “revenue control limit” (which currently enables school districts to generate and spend local property taxes for “excess utilities”) expires at the end of FY 2009. Districts currently budget approximately \$80,000,000 in Excess Utilities spending each year. A.R.S. § 15-910.03 requires school districts to submit an Excess Utilities funding plan to the department each year starting in July 2006 and requires the department to prepare and submit an annual report that summarizes the district self-reports by December 1 of each year. The department’s first summary report on this issue should be published prior to the start of the 2007 Legislative Session.

SUMMARY OF FUNDS - SEE AGENCY SUMMARY
