

Department of Education
Formula Programs

JLBC: Steve Schimpp/Leah Kritzer
 OSPB: Stacey Morley

DESCRIPTION	FY 2007 ACTUAL	FY 2008 ESTIMATE	FY 2009 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,213,600	1,441,000	1,441,000
Employee Related Expenditures	363,900	416,400	415,400
Professional and Outside Services	39,700	18,000	18,000
Travel - In State	13,600	63,000	63,000
Travel - Out of State	1,000	0	0
Other Operating Expenditures	491,100	260,300	261,300
Equipment	9,700	0	0
OPERATING SUBTOTAL	2,132,600	2,198,700	2,198,700
SPECIAL LINE ITEMS			
Basic State Aid	3,550,308,000	3,895,470,400	4,031,373,900
Additional State Aid	324,244,300	359,013,100	400,579,700
Conditional English Learner Weight Funding	0	14,300,000	14,300,000
Special Education Fund	35,235,500	35,237,700	35,237,700
Other State Aid to Districts	632,800	983,900	983,900
Hayden-Winkelman School District	1,865,400	0	0
PROGRAM TOTAL	3,914,418,600	4,307,203,800	4,484,673,900

FUND SOURCES			
General Fund	3,867,332,500	4,261,983,100	4,439,453,200
<u>Other Appropriated Funds</u>			
Permanent State School Fund	45,220,700	45,220,700	45,220,700
School Improvement Revenue Bond Debt Service Fund	1,865,400	0	0
SUBTOTAL - Other Appropriated Funds	47,086,100	45,220,700	45,220,700
SUBTOTAL - Appropriated Funds	3,914,418,600	4,307,203,800	4,484,673,900
Other Non-Appropriated Funds	533,723,100	642,140,900	685,237,500
TOTAL - ALL SOURCES	4,448,141,700	4,949,344,700	5,169,911,400

CHANGE IN FUNDING SUMMARY		
	<u>FY 2008 to FY 2009 JLBC</u>	
	\$ Change	% Change
General Fund	177,470,100	4.2%
Other Appropriated Funds	0	0.0%
Total Appropriated Funds	177,470,100	4.1%
Non Appropriated Funds	43,096,600	6.7%
Total - All Sources	220,566,700	4.5%

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 JLBC includes \$2,198,700 and 28 FTE Positions from the General Fund for the operating budget in FY 2009. These amounts are unchanged from FY 2008.

Basic State Aid

The JLBC includes \$4,031,373,900 for Basic State Aid in FY 2009. This amount consists of:

General Fund	\$3,986,153,200
Permanent State School Fund	45,220,700

FY 2009 adjustments would be as described starting on the next page.

These totals do not include \$86,280,500 in “additional school day” funding from Proposition 301 that will be allocated through Basic State Aid in FY 2009 because those monies are non-appropriated.

The \$4,031,373,900 total assumes a General Fund increase of \$135,903,500 and no change from the Permanent State School Fund. Components of the assumed 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 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

Table 1

FY 2009 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 2008	\$3,850,249,700	\$45,220,700	\$ 86,280,500	\$1,814,407,300	\$5,796,158,200
Changes for FY 2009:					
Base Adjustment – ADM	(49,000,000)				(49,000,000)
Base Adjustment – QTR	(19,000,000)				(19,000,000)
Enrollment Growth	171,675,000				171,675,000
2% Inflator	108,036,400				108,036,400
Joint Technology Districts	7,566,900				7,566,900
TAPBI	2,725,000				2,725,000
Net Assessed Valuation Growth	(229,331,800)			229,331,800	0
Truth in Taxation	<u>143,232,000</u>			<u>(143,232,000)</u>	<u>0</u>
Total – Cost after Formula Changes	\$3,986,153,200 ^{1/}	\$45,220,700 ^{1/}	\$86,280,500	\$1,900,507,100	\$6,018,061,500

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

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 monies through local property taxes.

**Base Adjustment –
ADM Growth GF (49,000,000)**

This adjustment would be a decrease of \$(49,000,000) from the General Fund in FY 2009 for a base adjustment pertaining to ADM growth. That amount includes an estimated \$(29,000,000) decrease for lower than projected ADM growth for school districts in FY 2007 and a \$(20,000,000) decrease for lower than projected ADM growth for charter schools for FY 2008 under preliminary data. Both changes will lower the cost of Basic State Aid in FY 2008, which, in turn, will reduce base costs for the program for FY 2009.

The actual base adjustment required for ADM growth for FY 2009, however, will also depend on growth in 100th Day ADM counts for school districts and charter schools for FY 2008, which will not be known until at least March 2008, even on a preliminary basis. The \$(49,000,000) base adjustment amount for FY 2009, therefore, is subject to considerable change and will be revised once preliminary 100th Day ADM counts for FY 2008 become available.

**Base Adjustment –
QTR Revenues GF (19,000,000)**

This adjustment would be a decrease of \$(19,000,000) from the General Fund in FY 2009 for a base adjustment pertaining to local QTR revenues. As explained above, K-12 QTR revenues are generated through local property taxes and offset state costs for Basic State Aid on a dollar for dollar basis. The FY 2008 budget assumed K-12 QTR revenues of \$1,796,766,900, but actual revenues are now expected to exceed that amount by approximately \$19,000,000 under revised data. This will permanently increase the base amount of QTR revenues generated for the program, which will reduce starting point costs for Basic State Aid for FY 2009 by an estimated \$(19,000,000).

Enrollment Growth GF 171,675,000

This adjustment would be an increase of \$171,675,000 from the General Fund in FY 2009 for enrollment growth. This total would consist of approximately \$137,340,000 for ADM growth in school districts and \$34,335,000 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 1,093,282 for school districts and charter schools combined for FY 2009. This would be an increase of 31,525 ADM pupils (3.0%) above the current estimate for FY 2008. The assumed 3.0% growth rate equals the average of the currently projected ADM growth rates from the JLBC Staff (2.7%) and University of Arizona Economic and Business Research Center (EBR) (3.3%).

The \$171,675,000 adjustment assumes continued funding of the Rapid Decline formula in A.R.S. § 15-942 at 50% of the full formula cost for FY 2009. 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	939,399	88,678	1,028,077	29,856	3.0%	
2008 est	967,758	93,999	1,061,757	33,680	3.3%	
2009 est	993,643	99,639	1,093,282	31,525	3.0%	

* Includes 1,495 charter school ADM for FY 2005, 1,073 for FY 2006, and 682 (estimated) for FY 2007 through FY 2009.

2% Inflation Adjustment GF 108,036,400

This adjustment would be an increase of \$108,036,400 from the General Fund in FY 2009 for a 2% inflation increase. This would include 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*.)

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 2.6% for calendar year 2007), whichever is less. A.R.S. § 901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level (\$2,687.32).

A 2% increase for FY 2009 would result in 1) a base level of \$3,291.42 per pupil; 2) transportation funding at \$1.85 or \$2.27 per route mile, depending on average per pupil route miles for a district (A.R.S. § 15-945.A5); and 3) charter school Additional Assistance per pupil amounts of \$1,474.16 for Grades K-8 and \$1,718.10 for Grades 9-12. A 2% inflation adjustment also would apply to special education vouchers, as described in the "Special Education Fund" narrative below.

item maintains existing funding for this issue. The same conditions as existed for implementing the higher weight for FY 2007 and FY 2008 are retained for FY 2009.

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 \$56,733,800 in Basic State Aid funding for school districts and charter schools in FY 2009 under current projections, which is included the overall Basic State Aid budget for FY 2009.

Special Education Fund

The JLBC includes \$35,237,700 and 1 FTE Position from the General Fund for Special Education Fund vouchers in FY 2009. These amounts are unchanged from FY 2008.

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 2009 to cover anticipated FY 2009 costs for enrollment growth (estimated at \$301,000) and inflation (estimated at \$602,000).

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 2009. This amount is unchanged from FY 2008.

The \$983,900 total 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 JLBC includes no funding from the School Improvement Revenue Bond Debt Service Fund to the Hayden-Winkelman School District in FY 2009. This amount is unchanged from FY 2008.

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.

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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 2009.

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.

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.

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 \$3,291.42 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 2009 the “soft cap” on desegregation expenditures established by Laws 2007, Chapter 264.
- 4) Continue to fund the Rapid Decline formula in A.R.S. § 15-942 at 50% for FY 2009.
- 5) Specify the official K-12 QTR for FY 2009, as adjusted for compliance with the Truth in Taxation law (A.R.S. § 41-1276) and the business property tax changes instituted by Laws 2007, Chapter 258.
- 6) Continue to authorize the Department of Education or Auditor General to conduct Average Daily Membership audits of school districts and charter schools.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Excess Utilities

FY 2009 is the last year that school districts will be allowed to budget for “excess utilities” outside of the Revenue Control Limit (RCL) under current law (A.R.S. § 15-910.A). This is because Proposition 301 from the November 2000 General Election stipulates that authority for school districts to budget for excess utilities outside of the RCL expires after FY 2009. Budgeting for an item “outside of the RCL” means that it is funded with local property taxes that do not require voter approval. School districts therefore will not be able to fund excess utilities with non-voter approved local property taxes after FY 2009 under current law. The portion of a district’s utility costs that currently can be considered “excess” and therefore funded with local property taxes is based on a statutory formula that includes annual adjustments for enrollment growth and inflation. Districts currently budget approximately \$90,000,000 for excess utilities each year.

On a related note, A.R.S. § 15-910.03 requires all school districts to submit to ADE each year by July 18 a report on their actual utility expenditures since FY 2000 and on their budgeted utility expenditures for the current fiscal year. It also requires school districts that budget for excess utilities to include data on their excess utilities expenditures in their reports. A.R.S. § 15-910.03 requires the department to submit to the Joint Legislative Budget Committee by December 1 each year a summary of information from the school district reports. The department’s most recent summary was submitted in December 2007. It reported total statewide school district utility costs of \$254 million for FY 2007, of which \$73 million was funded through excess utilities. These data are incomplete, however, as 41 school districts did not submit reports to ADE for FY 2007. A total of 197 school districts submitted reports, including 96 that budgeted for excess utilities for FY 2007 and 101 that did not. The ADE excess utilities report can be viewed at <http://www.ade.az.gov/schoolfinance/>.

TAPBI

In October 2007, the Auditor General issued a report on the Technology Assisted Project-Based Instruction Program (TAPBI). *(Please see the related discussion under Basic State Aid for more information.)*