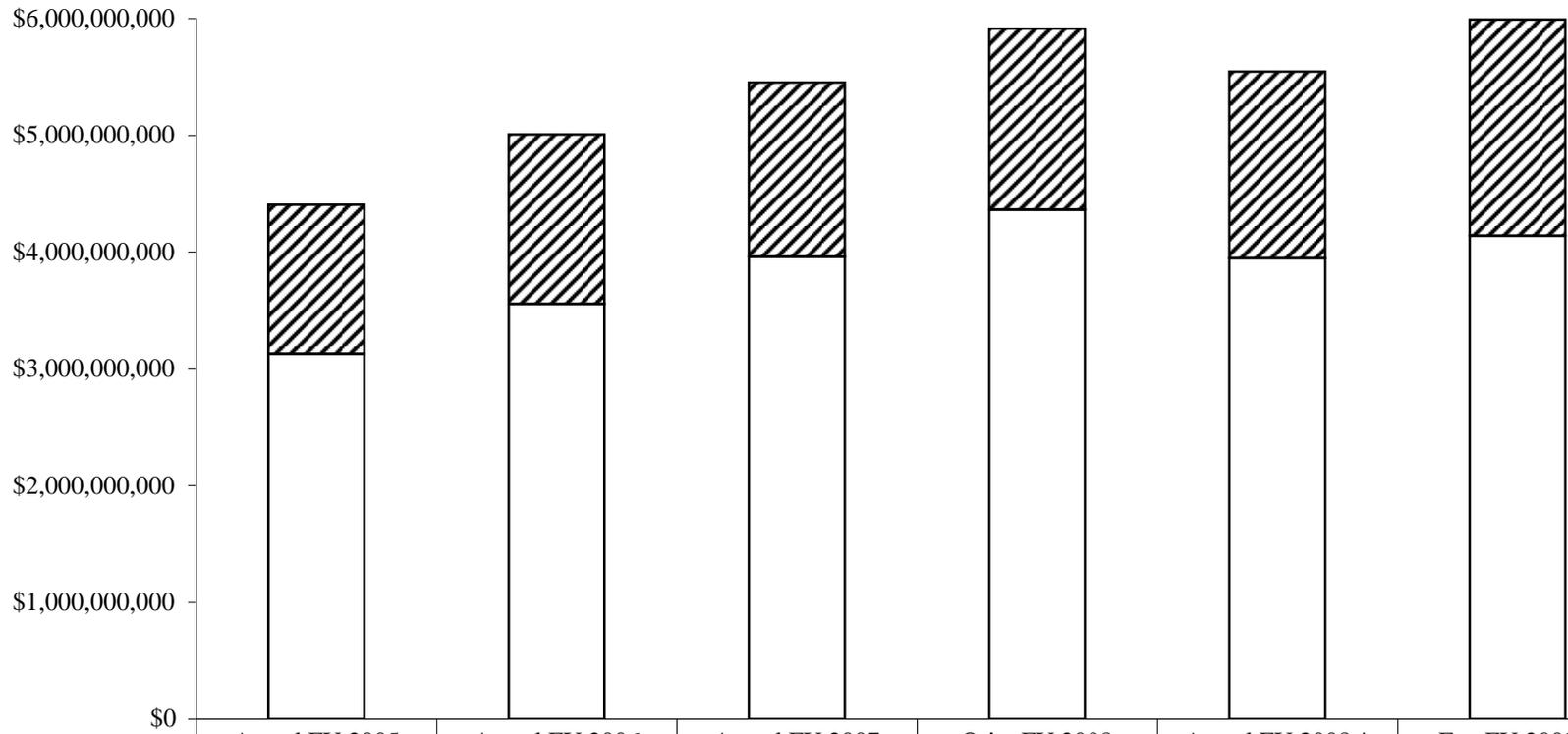


**Department of Education
Total Funds FY 2005 - FY 2009**



	Actual FY 2005	Actual FY 2006	Actual FY 2007	Orig. FY 2008	Actual FY 2008 *	Est. FY 2009 *
Total Spending Authority	\$4,406,471,400	\$5,007,537,900	\$5,452,108,200	\$5,912,962,000	\$5,546,892,000	\$5,991,214,700
Non-General Fund	\$1,276,267,300	\$1,452,250,400	\$1,492,247,000	\$1,549,496,900	\$1,600,734,500	\$1,850,013,700
General Fund	\$3,130,204,100	\$3,555,287,500	\$3,959,861,200	\$4,363,465,100	\$3,946,157,500	\$4,141,201,000

□ General Fund ▨ Non-General Fund

* Once adjusted for the K-12 rollover, total General Fund spending would be \$4.2 B in FY 2008 and \$4.7 B in FY 2009.

Agency: Department of Education

Proposal: Lump Sum Reduction

FY 09 Savings: \$7,612,000

FY 10 Savings: \$11,418,000

This amount represents an agencywide 10% lump sum reduction in FY 2009 and 15% in FY 2010. This lump sum reduction would not be applied against Basic State Aid, Additional State Aid, Special Education Vouchers, Compensatory Instruction, SEI Fund, English Language Learner program and the Superintendent's Salary and Benefits, as a constitutional officer.

Proposal: Personnel Savings

FY 09 Savings: \$493,300

FY 10 Savings: \$1,185,700

This option would reduce an agency's budget by the equivalent of 4.2% of its personnel expenses in FY 2009 and 10% in FY 2010 plus related benefit costs. It would exempt the Superintendent's Salary and Benefits, as a constitutional officer.

State agencies would have the flexibility of determining how to implement this reduction in their personnel costs. These actions could include a furlough, pay reduction or other management actions. In implementing this proposal, agencies would not be permitted to reduce their aid to individuals or contracted services to organizations, as typically delineated in a budget's special line items.

Agency: Department of Education

Proposal: District Lump Sum Reduction

FY 09 Savings: \$0

FY 10 Savings: \$220,000,000

This amount represents a 10% lump sum reduction in non-voter protected Basic State Aid funding to school districts and charter schools in FY 2010. It assumes that approximately \$3.8 billion of the \$6.0 billion in K-12 equalization formula funding is voter protected, leaving \$2.2 billion non-protected ($\$2.2 \text{ billion non-protected} \times 10\% = \220 million). This option would not specify which portion of the overall Basic State Aid formula would be reduced or earmark how the reduction was to be taken at the local level, so would be “lump sum” in nature.

This option would require a statutory change.

Agency: Department of Education

Proposal: Aggregate Expenditure Limit

FY 09 Savings: \$0

FY 10 Savings: \$98,198,000

This option would implement the FY 2009 Aggregate Expenditure Limitation (AEL) in the form of reduced state formula funding for FY 2010. The State Board of Education reported on October 29, 2008, pursuant to A.R.S. § 15-911B, that currently budgeted expenditures for all school districts collectively statewide for FY 2009 exceed the AEL by \$98,198,000. When the AEL is exceeded, statute does not specify whether the savings would reduce General Fund costs or local property taxes. This option assumes that legislation would be enacted to reduce districts' formula funding.

The AEL was established in the State Constitution in 1980 (Article IX, Section 21, subsection (4)) and limits growth in statewide K-12 expenditures to the combined rate of growth for enrollment and inflation, with exceptions for items like bonding and Proposition 301 monies. (The latter were exempted from the AEL through voter enactment of Proposition 104 in November 2002.)

The State Constitution permits the Legislature to authorize K-12 expenditures above the AEL for the current year with a two-thirds majority vote on or before March 1, 2009 (Article IX, Section 21, Subsection 3). Otherwise on or before March 5, 2009, the State Board of Education is required to instruct each school district to reduce its expenditures on a pro rata basis in order to get statewide K-12 spending below the AEL (A.R.S. § 15-911E).

The Legislature previously authorized AEL exemptions for FY 2008, FY 2007 and FY 2002. The FY 2008 exemption was for \$146.6 million and was authorized by HCR 2005 from the 2008 Regular Session.

Agency: Department of Education
Proposal: TAPBI Growth Funded at 85%
FY 09 Savings: \$0
FY 10 Savings: \$1,590,000

This option would fund enrollment growth in the Technology Assisted Project Based Instruction (TAPBI) program at 85%, which would result in an estimated General Fund savings of \$1,590,000. TAPBI seeks to improve student achievement through expanded use of on-line K-12 coursework. Students who take TAPBI courses do so either from home using the Internet or from computers located in traditional classrooms. In either case, their host site includes them in its Average Daily Membership (ADM) count, which generates funding for them under the same Basic State Aid formula that is used to fund public school pupils in general. TAPBI students who would attend public schools even without the program and who generate 1.0 Average Daily Membership (ADM) of funding do not increase Basic State Aid costs, since they would receive the same amount of public school funding with or without the program. Some public school students, however, attend both a TAPBI and non-TAPBI site and currently generate more than 1.0 ADM of funding because ADE's Student Accountability Information System (SAIS) is unable to pro rate funding for them, as required by law. (ADE is working on this issue, but it is not yet resolved.) Their participation in TAPBI therefore *does* increase state costs. In addition, home school and private school pupils who enroll in TAPBI increase state costs because of their first-time inclusion in the statewide ADM count.

The estimated savings of \$1,590,000 for this option assumes that TAPBI enrollments will increase by 2,000 ADM in FY 2010 (versus 2,180 in FY 2009 and 2,916 in FY 2008) and would have an average full-funded cost of about \$5,300 per pupil (2,000 new ADM X \$5,300 X 15% savings = \$1,590,000).

Under current law, up to 20% of new TAPBI students each year can come from outside of the public school system (A.R.S. § 15-808B). Data on the actual percentage of TAPBI participants who come from outside of public schools are not available. Anecdotally, however, it appears that most annual growth in TAPBI programs is from public school pupils enrolling in both TAPBI and non-TAPBI sites and generating more than 1.0 ADM per pupil, rather than from increased home and private school student participation.

Two school districts and 2 charter schools have participated in TAPBI since 1998: Deer Valley Unified, Mesa Unified, Sequoia Choice (Arizona Distance Learning) and Arizona Virtual Academy (formerly part of PPEP TEC charter school). The program added 10 additional school districts and charter schools (5 each) in FY 2004 due to a program expansion authorized by Laws 2003, Chapter 241. No change in program participants has occurred since FY 2004.

A.R.S. § 15-808 would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: Career Ladder Phase Out

FY 09 Savings: \$0

FY 10 Savings: \$5,268,100

This proposal would phase out Career Ladder funding over 8 years by reducing program funding by approximately 12% per year from FY 2010 through FY 2017. It assumes repeal of the new teacher performance pay plan established by Laws 2008, Chapter 287, which essentially would have expanded Career Ladder to all school districts by FY 2018 (currently only 28 districts participate). It also assumes that about 12% of Career Ladder teachers leave the profession each year based on national teacher turnover rate data. The proposal therefore is intended to eliminate program funding primarily through attrition. Its estimated first-year state savings is approximately \$5.3 million, which would equal approximately 12% of the \$42.1 million projected state cost of the program for FY 2010 under current law. Local property taxes for Career Ladder programs also would decrease by 12% under the proposal relative to current law, for an estimated local property tax savings of \$5.6 million in FY 2010. Apart from the proposal, local property taxes would generate an estimated \$45.0 million in funding for Career Ladder programs in FY 2010.

The Career Ladder program provides additional state and local funding to participating school districts in order to provide their teachers with opportunities for professional advancement based on performance. Districts that participate in the program receive 5.5% more “base level” funding than non-participants, but are required to increase their “Qualifying Tax Rate” by 22 cents (to \$3.14 per \$100 of net assessed value for FY 2009) in order to help fund the program with local property taxes. The program has been closed to new participants since FY 1994.

On a related note, the Education BRB for FY 2009 (Laws 2008, Chapter 287) established a new teacher performance pay program that essentially phases in Career Ladder funding for all districts in 6 “stages” over the next 9 years (by FY 2018), subject to legislative appropriation. This would add an estimated \$275 million to state costs by FY 2018. The first “stage,” however, could be deferred until as late as FY 2013, so the program has no mandated state cost for FY 2010.

Statute authorizing the current Career Ladder and Optional Performance Incentives Program (A.R.S. §§ 15-918 through 15-919.06) would have to be amended and statute authorizing the new teacher performance pay program (A.R.S. § 15-977G3) would have to be repealed in order to implement this option.

Agency: Department of Education

Proposal: Phase Out Teacher Experience Index

FY 09 Savings: \$0

FY 10 Savings: \$7,302,100

This option would phase out the Teacher Experience Index (TEI) over 8 years starting in FY 2010, which would result in an estimated FY 2010 General Fund savings of \$7,301,200. The TEI is a “weight” in the Basic State Aid formula that provides higher per pupil funding for school districts whose teachers as a whole have more years of experience than the statewide average. The lowest effective TEI is “1.0,” so that districts with below average years of teacher experience do not lose money (otherwise their TEI’s would be less than the statewide average of 1.0, which would give them a “negative” weight).

The estimated statewide cost of the TEI for FY 2010 is \$58,417,000 and the estimated first-year savings for this option of \$7,302,100 equals 1/8th of that total. This assumes that about 1/8th (12%) of existing teachers statewide would retire or otherwise cease employment at their current school district in FY 2010 based on national teacher turnover rate data.

A.R.S. § 15-941 would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: Desegregation Hard Cap

FY 09 Savings: \$0

FY 10 Savings: \$797,900

This proposal would cap K-12 desegregation spending in FY 2010 at the FY 2009 level of approximately \$206.6 million statewide. Apart from the proposed “hard cap,” desegregation spending would be expected to grow by about \$6.2 million in FY 2010 under the existing session law “soft cap,” which permits funding increases for enrollment growth and inflation. Under the current “soft cap,” the state would fund about \$797,900 of the estimated \$6.2 million increase in FY 2010 through the Homeowner’s Rebate ($\$6.2 \text{ million increase} \times 33\% \text{ funded with homeowner property taxes} \times 39\% \text{ homeowner’s rebate} = \$797,900$). That \$797,900 cost would be avoided under the proposal, resulting in a state savings.

The Homeowner’s Rebate is authorized under A.R.S. § 15-972, which requires the state to pay a portion of homeowner’s primary property taxes for schools. Desegregation programs are funded with primary property taxes, so they qualify for Homeowner’s Rebate funding.

A.R.S. § 15-910 would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: Rollback FY 2008 Math or Science Initiative Increase

FY 09 Savings: \$2,500,000

FY 10 Savings: \$2,500,000

This option would eliminate funding for the “Math or Science Initiatives” program. The General Appropriation Act for FY 2008 provided \$2.5 million in first-time funding from the General Fund in FY 2008 for a new Math or Science Initiatives program. That money remained in the department’s budget for FY 2009.

A.R.S. § 15-720.01A states that the purpose of the program is “to promote improved pupil achievement in mathematics or science by providing supplemental funding for innovative mathematics or science programs.” It requires that priority in awarding grants be given to schools with low math and science AIMS scores. The State Board of Education, which administers the program, has contracted with Science Foundation Arizona for administration of the grants. No grants were awarded for the first year of the program (FY 2008) and the application process for FY 2009 currently is on hold due to a review of all contracts over \$50,000 required by the Executive.

Agency: Department of Education

Proposal: Soft Capital Suspension

FY 09 Savings: \$91,520,000

FY 10 Savings: \$218,924,500

This option would fund Soft Capital at approximately 57% for FY 2009 and suspend Soft Capital funding entirely for FY 2010. This would result in an estimated General Fund savings of \$91,520,000 for FY 2009 and \$218,924,500 for FY 2010.

The FY 2009 reduction would leave school districts with an estimated \$124 million in Soft Capital Funding for the current year. Fully funding Soft Capital in FY 2009 would cost an estimated \$215 million. As of the end of December 2008, approximately \$54 million of the \$215 million has been distributed to school districts, leaving roughly \$161 undistributed. Soft Capital funding is distributed in monthly installments pursuant to A.R.S. § 15-973, but no payments are made in August and November and double payments are made in April and May.

Soft Capital funding is provided as part of the Basic State Aid formula pursuant to A.R.S. § 15-962D. It may be used only to purchase short-term capital items such as technology, textbooks, library resources, instructional aids, pupil transportation vehicles, furniture and equipment. Soft Capital funding is generated at a rate of \$225 - \$272 per pupil, depending on the size of the pupil's school district.

A.R.S. § 15-962 would have to be notwithstanding for FY 2009 and suspended for FY 2010 in order to implement this option.

Agency: Department of Education

Proposal: Eliminate Full Day Kindergarten

FY 09 Savings: \$0

FY 10 Savings: \$218,298,300

This proposal would eliminate the Kindergarten “Group B” weight starting in FY 2010, Laws 2006, Chapter 353 established the weight in A.R.S. § 15-943 and set it at 0.835 for FY 2007 and 1.352 for FY 2008 and subsequent years. Eliminating the weight for FY 2010 would reduce General Fund costs for Basic State Aid for that year by an estimated \$218,298,300.

An alternative option would be to rollback the weight to its FY 2007 (“phase 1”) level of 0.835, rather than eliminating it entirely. This would result in an estimated FY 2010 General Fund savings of \$83,232,000.

Funding generated by Group B weights is unrestricted in nature, so monies generated by the Kindergarten weight do not have to be spent on Kindergarteners. Districts that wish to use Kindergarten Group B weight monies to fund voluntary full-day Kindergarten, however, may do so pursuant to A.R.S. § 15-901.02.

A.R.S. § 15-943 would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: No Early Kindergarten

FY 09 Savings: \$0

FY 10 Savings: \$11,200,000

This proposal would eliminate funding for Kindergarten students who turn 5 on or after September 1 of a given school year (“early Kindergartners”) starting in FY 2010, which would reduce General Fund costs for Basic State Aid by an estimated \$11.2 million in FY 2010. A.R.S. § 15-821C currently requires children to turn 5 prior to September 1 in order to be eligible for admission into Kindergarten, but allows a school district governing board to admit into Kindergarten a child who turns 5 by January 1 of the current school year if it is determined to be in the best interest of the child.

The Arizona Department of Education reports that 2,249 students who turned 5 after September 1 in the 2007-2008 school year are repeating Kindergarten in the 2008-2009 school year. The General Fund cost of Basic State Aid for those students is estimated at approximately \$11.2 million for FY 2009 (2,249 students X \$5,000 per student ≈ \$11.2 million). Eliminating “Early Kindergarten” starting in FY 2010, therefore, would reduce Basic State Aid costs by an estimated \$11.2 million beginning that year.

A.R.S. § 15-821C would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: Rollback FY 2007 Gifted Education Increase

FY 09 Savings: \$833,300
FY 10 Savings: \$2,000,000

This option would rollback a FY 2007 increase of \$2 million for the Gifted Education program in FY 2010 and fund only 5/12ths of that increase for FY 2009. This would result in a General Fund savings of \$833,300 in FY 2009 and \$2,000,000 in FY 2010. It would leave the program with \$2,552,100 in funding for FY 2009 and \$1,385,400 for FY 2010.

Laws 2006, Chapter 336 appropriated \$2.0 million from the General Fund in FY 2007 to increase per pupil funding for the program. Prior to Chapter 336, the program's funding formula authorized allocations of \$55 per pupil for 3% of a school district or charter school's student count, or \$1,000, whichever was more (although the formula was not fully funded in more recent years and provided only \$44 per pupil in FY 2006). Chapter 336 increased the formula amounts to \$75 per pupil for 4% of a school district or charter school's student count, or \$2,000, whichever is more.

A.R.S. § 15-779.03 would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: Homeowner's Rebate – Property Tax Reform

FY 09 Savings: \$0

FY 10 Savings: \$48,317,800

This option would eliminate Homeowner's Rebate funding for school district Career Ladder, Desegregation and Transportation Revenue Control Limit (TRCL) budgets, which would save the General Fund an estimated \$48.3 million in FY 2010. This total would consist of an estimated \$8.8 million for Career Ladder, \$27.4 million for Desegregation programs and \$12.1 million for TRCL. Those 3 programs receive funding from local "primary" property taxes, which the state pays a portion of through the Homeowner's Rebate program (A.R.S. § 15-972). This option would disqualify those programs from Homeowner's Rebate funding, which would require them to either cut program costs or replace the lost Homeowner's Rebate funding with additional local property taxes. This option, however, would be part of an overall package of property tax reform options.

Career Ladder property taxes are authorized by A.R.S. § 15-918.05. Desegregation-related property taxes are authorized by A.R.S. § 15-910H. TRCL-related property taxes are authorized by A.R.S. § 15-946. Those and related sections of law would have to be amended in order to implement this option.

Agency: Department of Education

Proposal: State Aid Reduction for School Districts with Above Average Administrative Costs

FY 09 Savings: \$0

FY 10 Savings: \$39,516,100

This option would require ADE to reduce Basic State Aid in FY 2010 for school districts with above average administrative costs. The amount of the reduction would equal \$50 per Average Daily Membership (ADM) pupil multiplied by the difference between statewide average administrative costs, as reported by the Auditor General (9.5% for FY 2007), and actual percentage reported for a given district. Under this option, a district with 10,000 ADM pupils and reported administrative costs of 10.0%, for example, would experience a FY 2010 reduction of \$250,000 (10,000 ADM X \$50 X (10.0 - 9.5) = \$250,000). The total estimated statewide savings for this option would be \$39,515,000 for FY 2010.

The option could be implemented either by formally reducing the Base Support Level (BSL) of each affected district or by requiring ADE to reduce state aid for each affected district without reducing its overall spending authority. In the latter case, a district potentially could use local property taxes to make up the difference.

The Auditor General reports that school districts statewide spent about \$6.8 billion on maintenance and operations (M&O) costs in FY 2007. This suggests that school districts spent approximately \$646 million on administration that year (\$6.8 billion X 9.5% state average administrative costs = \$646 million). The proposed \$39.5 million reduction, therefore, would represent roughly 6% of total reported administrative costs statewide for FY 2007 (\$39.5 M / \$646 M = 6.1%).

Agency: Department of Education

Proposal: Eliminate Early Graduation Scholarship Program

FY 09 Savings: \$0

FY 10 Savings: \$4,682,800

This option would eliminate funding for the Early Graduation Scholarship Program established by Laws 2007, Chapter 280, which provides scholarships for 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 (A.R.S. § 15-105). 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, A.R.S. § 15-105 requires the Arizona Department of Education (ADE) to continue to provide school districts and charter schools with Basic State Aid funding for early graduates through the year that they were originally scheduled to graduate and requires ADE to deduct and transfer a portion of that funding to the Early Graduation Scholarship Fund (EGSF). 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.

The program increases Basic State Aid costs to the extent that it continues to fund students who otherwise would no longer be included in a district or charter school's funded student count, or by funding "half year early" students for additional days in their final school year. Based on available data, the JLBC Staff estimates that the increase in Basic State Aid costs under the program will be approximately \$4,682,800 for FY 2010. This option would eliminate that cost.

Scholarships from the program are awarded by the Commission for Postsecondary Education (CPE). The CPE reports that it awarded only \$88,800 in total Early Graduation Scholarships in the first year of the program (FY 2008). Participation rates in the program, however, are expected to increase dramatically under current law in the future, as the program becomes better publicized.

A.R.S. § 15-105 would have to be repealed in order to implement this option.

Agency: Department of Education

Proposal: Eliminate Vocational Education Extended Year Program

FY 09 Savings: \$250,000

FY 10 Savings: \$600,000

This proposal would provide partial (5/12ths) funding for the Vocational Education Extended Year program for FY 2009 and eliminate program funding for FY 2010. The program provides joint technology education districts with funding for extended year or summer school programs pursuant to A.R.S. § 15-782.02. This proposal would leave the program with \$350,000 in funding for FY 2009. Only the 11 Joint Technology Education Districts (JTEDs) and their member districts are eligible for funding from this program.

A.R.S. § 15-782.02 would have to be amended in order to implement this option.