

Department of Education

Formula Programs

JLBC: Steve Schimpp/Jack Brown

OSPB:

DESCRIPTION	FY 2008 ACTUAL	FY 2009 ESTIMATE	FY 2010 JLBC
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	29.0	29.0	29.0
Personal Services	1,272,200	1,428,000	1,428,000
Employee Related Expenditures	381,800	421,300	421,300
Professional and Outside Services	5,300	10,000	10,000
Travel - In State	0	22,300	22,300
Other Operating Expenditures	305,200	215,200	215,200
Equipment	11,200	0	0
OPERATING SUBTOTAL	1,975,700	2,096,800	2,096,800
SPECIAL LINE ITEMS			
Basic State Aid	3,496,161,100	3,608,751,600	3,957,064,400
Additional State Aid	366,134,800	404,880,500	414,417,700
Special Education Fund	35,237,700	35,237,700	35,237,700
Other State Aid to Districts	700,500	983,900	983,900
PROGRAM TOTAL	3,900,209,800	4,051,950,500	4,409,800,500
FUND SOURCES			
General Fund	3,854,989,100	4,006,729,800	4,363,325,000
<u>Other Appropriated Funds</u>			
Permanent State School Fund	45,220,700	45,220,700	46,475,500
SUBTOTAL - Other Appropriated Funds	45,220,700	45,220,700	46,475,500
SUBTOTAL - Appropriated Funds	3,900,209,800	4,051,950,500	4,409,800,500
Other Non-Appropriated Funds	622,001,800	597,782,700	597,782,700
TOTAL - ALL SOURCES	4,522,211,600	4,649,733,200	5,007,583,200

CHANGE IN FUNDING SUMMARY

	FY 2009 to FY 2010 JLBC	
	\$ Change	% Change
General Fund	356,595,200	8.9%
Other Appropriated Funds	1,254,800	2.8%
Total Appropriated Funds	357,850,000	8.8%
Non-Appropriated Funds	0	0.0%
Total - All Sources	357,850,000	7.7%

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 homeowner’s school property taxes.

Operating Budget

The JLBC includes \$2,096,800 and 28 FTE Positions from the General Fund for the operating budget in FY 2010. These amounts are unchanged from FY 2009.

Basic State Aid

The JLBC includes \$3,957,064,400 for Basic State Aid in FY 2010. This amount consists of:

General Fund	\$3,910,588,900
Permanent State School Fund	46,475,500

Table 1

FY 2010 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 2009	\$3,563,530,900 ^{1/2/}	\$45,220,700	\$ 86,280,500	\$1,925,689,400	\$5,620,721,500
Changes for FY 2010:					
Base Adjustment – ADM	(33,180,700)				(33,180,700)
Enrollment Growth @ 1.6%	94,416,600				94,416,600
2% Inflator	8,212,100				8,212,100
Net Assessed Valuation Growth	(186,691,100)			186,691,100	0
Truth in Taxation	134,669,700			(134,669,700)	0
Endowment Earnings	(1,254,800)	1,254,800			0
Added Rollover Payment for FY 2009 ^{3/}	<u>330,886,200</u>				<u>330,886,200</u>
Total – Cost after Formula Changes	\$3,910,588,900 ^{4/}	\$46,475,500	\$86,280,500	\$1,977,710,800	\$6,021,055,700

^{1/} Includes \$272,627,700 rollover payment from FY 2008 to FY 2009 and \$(602,627,700) rollover from FY 2009 to FY 2010. Represents a net rollover of \$(330,000,000).

^{2/} Includes \$(5,646,300) for transfers authorized during FY 2009 pursuant to A.R.S. § 15-901.03, which included \$(2,500,000) for the Disabled Pupil Scholarships program, \$(2,500,000) for Displaced Pupils Choice Grants program and \$(646,300) for the Structured English Immersion Fund.

^{3/} Includes \$602,627,700 rollover payment from FY 2010 to FY 2011 plus \$886,200 in related interest costs. Given the \$272,627,700 rollover in FY 2009, this represents a net increase of \$330,886,200.

^{4/} Represents appropriated Basic State Aid funds. Proposition 301 monies for Basic State Aid are not appropriated.

FY 2010 adjustments would be as described in the “Major Changes to Basic State Aid” section below.

The \$3,957,064,400 total cited above does not include \$86,280,500 in “additional school day” funding from Proposition 301 that would be allocated through Basic State Aid in FY 2009 because those monies are non-appropriated.

The \$3,957,064,400 total includes a General Fund increase of \$347,058,000 and a \$1,254,800 increase from the Permanent State School Fund relative to the revised Basic State Aid appropriations for FY 2009. (The revised FY 2009 appropriation includes a reduction of \$(5,646,300) for transfers listed in footnote 2 in *Table 1* above.) 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 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. § 15-185B4 and for FY 2009 are equal to \$1,474.16 per pupil for Grades K-8 and \$1,718.10 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

The narrative below describes major changes to Basic State Aid funding for FY 2010 relative to the revised Basic State Aid appropriation for FY 2009 of \$3,608,751,600.

Base Adjustment - Caseload GF (33,180,700)

This adjustment would decrease Basic State Aid funding by \$(33,180,700) from the General Fund in FY 2010. The adjustment would be due to lower than projected ADM growth in FY 2008 and anticipated lower growth for FY 2009. This lower growth would permanently reduce the base number of students being funded through the K-12 equalization formula, which would decrease starting point Basic State Aid costs for FY 2010. The \$(33,180,700) amount assumes an unbudgeted caseload savings of \$(13,180,700) from FY 2008 and an additional unbudgeted savings of \$(20,000,000) for FY 2009. The latter number assumes that statewide ADM will grow by approximately 1.6% in FY 2009, rather than the budgeted rate of 2.0%.

Enrollment Growth GF 94,416,600

This adjustment would increase Basic State Aid funding by \$94,416,600 from the General Fund in FY 2010. The adjustment would be for enrollment growth and consists of approximately \$61,370,800 for ADM growth in school districts and \$33,045,800 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 1,075,220 for school districts and charter schools combined for FY 2010. This would be an increase of 17,012 ADM pupils (1.6%) above the current estimate for FY 2009.

	Districts (including Charters)*	State Charters	Total	Change	% Change
2006	914,653	83,568	998,221	27,236	2.8%
2007	936,497	87,904	1,024,401	26,180	2.6%
2008 est	949,018	92,637	1,041,656	17,255	1.7%
2009 est	960,568	97,640	1,058,208	16,552	1.6%
2010 est	972,307	102,912	1,075,220	17,012	1.6%

* Includes 682 charter school ADM for FY 2007 (actual), and an estimated 568 for FY 2008, 482 for FY 2009 and 386 for FY 2010.

2% Inflation Adjustment GF 8,212,100

This adjustment would increase Basic State Aid funding by \$8,212,100 from the General Fund in FY 2010. The adjustment would be for a 2% inflation increase in transportation funding levels prescribed in A.R.S. § 15-945A5 and charter school "Additional Assistance" amounts prescribed in A.R.S. § 15-185B4 (*see Table 1*). It would not include a 2% increase in the "base level" prescribed in A.R.S. § 15-901B2, which would remain at the FY 2009 level of \$3,291.42 for FY 2010. Funding a 2% increase in the base level would cost an additional \$102,093,100 under current JLBC Staff estimates, for a total inflation adjustment of \$110,305,200.

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 for the prior calendar year, whichever is less. (The FY 2010 adjustment would be 2%, since the calendar year 2008 GDP price deflator is projected to be 2.3%.) 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 Legislature has previously funded inflation for both the base level and transportation. Based on the term "or" in the phrase "base level or other components of the Revenue Control Limit" in A.R.S. § 901.01, Legislative Council has previously opined that the Legislature could fund inflation for either the base level or for transportation costs for a given fiscal year. The Attorney General subsequently opined that A.R.S. § 901.01 required both the base level and transportation funding to be adjusted annually for inflation.

The assumed 2% increase would provide \$1.89 or \$2.32 per route mile in FY 2010, depending on average per pupil route miles for a district (A.R.S. § 15-945.A5). It would fund charter school additional assistance in FY 2010 at \$1,503.64 per pupil for Kindergarten through grade 8 and \$1,752.46 per pupil for high school students.

Net Assessed Value Growth GF (186,691,100)

This adjustment would decrease Basic State Aid funding by \$(186,691,100) from the General Fund in FY 2010. The adjustment would be due to growth in statewide property values. The \$(186,691,100) amount assumes that

Instruction Program (TAPBI) authorized in A.R.S. § 15-808. The \$94,416,600 amount for K-12 enrollment growth for FY 2010 that is described above therefore would have to cover any potential increase in TAPBI formula costs for FY 2010. The TAPBI program grew by approximately 2,200 ADM students statewide in FY 2009 and a similar increase could occur for FY 2010. The cost of ongoing TAPBI ADM growth, however, is unknown because it depends on the extent to which TAPBI growth displaces ADM growth in non-TAPBI public schools, which is not reported. In addition, the department has indicated plans to begin prorating funding for TAPBI students who also attend non-TAPBI programs, which would result in formula savings, but it is unclear when this change will occur.

Rapid Decline **GF 0**

The JLBC includes no change from the General Fund in FY 2010 for Rapid Decline, which was not funded in FY 2009. The FY 2009 Education BRB suspended 100% of Rapid Decline funding for that year versus the 50% suspension that was included in the budget for FY 2005 through FY 2008. If not suspended or repealed, Rapid Decline would cost an estimated \$2,234,700 for FY 2010. Rapid Decline funding is authorized by A.R.S. § 15-942 and temporarily buffers funding losses that otherwise would occur when a district loses more than 5% of its ADM count in a given year.

Endowment Earnings **GF (1,254,800)**
OF 1,254,800

This adjustment would decrease Basic State Aid by \$(1,254,800) from the General Fund and increase Basic State Aid by \$1,254,800 from the Permanent State School Fund in FY 2010. The change would be due to lower debt service costs for State School Trust Revenue Bonds and Qualified Zone Academy Bonds (QZABs) that were issued by the School Facilities Board (SFB) in past years in order to fund deficiencies correction in public schools. Debt service costs on those bonds is funded with monies from the Permanent State School Fund pursuant to A.R.S. § 37-521B1. The SFB projects that combined debt service costs for State School Trust Revenue Bonds and QZABs will equal \$25,787,500 in FY 2010, which would be \$(1,254,800) less than the currently budgeted amount of \$27,042,300 due to a bond refinancing from November 2007. This would increase the amount of land trust monies available to fund Basic State Aid in FY 2010 by \$1,254,800, to a total of \$46,475,500.

For FY 2010, the JLBC Staff currently estimates that expendable K-12 endowment earnings will equal \$172,263,000, which would be a \$(15,779,800) decrease below the current \$188,042,800 JLBC Staff estimate for FY 2009. This change will not affect trust land funding for 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 the first \$72,263,000 in endowment earnings for those 2 purposes

each year. It will, however, reduce trust land revenue into the Proposition 301 Classroom Site Fund by an estimated \$(15,779,800) in FY 2010.

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.

FY 2009 Rollover **GF 330,886,200**

This adjustment would increase Basic State Aid by \$330,886,200 from the General Fund in FY 2010. The adjustment would be to fund an increase in deferred Basic State Aid payments from FY 2009 and related interest costs. Laws 2008, Chapter 287 deferred \$602,627,700 in Basic State Aid funding that otherwise would have been distributed by the department on May 15 and June 15, 2009 to July 1, 2009. It also appropriated \$603,513,900 from the General Fund in FY 2010 to make the deferred payments and fund related interest costs incurred by school districts. Of the \$603,513,900 amount, \$330,886,200 represented the increase above FY 2009, since the FY 2009 budget already included \$272,627,700 for the deferred payment from FY 2008.

As a result of the additional FY 2009 rollover, the base budget for the program includes a total deferred obligation of \$602,627,700 going into FY 2010. That obligation will not be paid off until a 13th payment of \$272,627,700 (for the FY 2008 rollover) and an additional 14th payment of \$330,000,000 (for the additional FY 2009 rollover) are provided in a future year in addition to 12 "regular" payments for that year.

Additional State Aid

The JLBC includes \$414,417,700 from the General Fund for Additional State Aid in FY 2010. The FY 2010 adjustments would be as follows:

Net Assessed Value Growth **GF 23,837,200**

This adjustment would increase Additional State Aid funding by \$23,837,200 from the General Fund in FY 2010 for Net Assessed Value (NAV) growth. This assumes that statewide NAV in FY 2010 will grow by 11.0% for all classes of property combined (8.0% for existing property and 3.0% for new construction). It also assumes 9.0% growth for Class III properties (owner occupied homes, both new and existing) and that average school district tax rates will decrease by (4.4)% apart from changes due to Excess Utilities that are described separately below.

The assumed \$23,837,200 amount includes costs associated with a reduction in the assessment ratio for

business property in FY 2010 pursuant to Laws 2005, Chapter 302, as amended by Laws 2007, Chapter 258. Chapter 258 reduces the assessment ratio for Class I properties (commercial and industrial) from 23% in FY 2009 to 22% in FY 2010 (and ultimately to 20% by FY 2012). It also increases the Homeowner's Rebate from 38% of a homeowner's primary property taxes for schools in FY 2009 to 39% in FY 2010 (and 40% by FY 2011). In addition, Chapter 258 increases the current Homeowner's Rebate cap from \$560 per home in FY 2009 to \$580 in FY 2010 (and \$600 by FY 2011). Chapters 302 and 258 did not advance appropriate monies to pay for future increases in Homeowner's Rebate costs resulting from their implementation. The 11.0% NAV growth rate assumed for FY 2011, however, reflects all anticipated NAV changes for the year, including the effects of Chapters 301 and 258.

The \$23,837,200 increase assumes continuation of a "soft cap" on school district desegregation expenditures that currently prohibits a school district from increasing its desegregation expenditures for factors other than for enrollment growth and inflation. A "soft cap" on desegregation expenditures has been in effect on a session law basis since FY 2005. The "soft cap" affects Homeowner's Rebate costs because desegregation expenditures are funded with primary property taxes and those taxes qualify for Homeowner's Rebate and 1% cap funding.

Excess Utilities **GF (14,300,000)**

This adjustment would decrease Additional State Aid funding by \$(14,300,000) from the General Fund in FY 2010. The adjustment would be due to the elimination of Excess Utilities related property taxes starting in FY 2010. (See "Excess Utilities" policy issue under *Other Issues for Legislative Consideration for more information.*)

Background — Additional State Aid is authorized by A.R.S. § 15-972, which for FY 2010 will require the state to pay 39% of each homeowner's school district primary property taxes, up to a maximum of \$580 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 III properties are eligible for both "homeowner's rebate" and "1% cap" funding.

Special Education Fund

The JLBC includes \$35,237,700 and 1 FTE Position from the General Fund for special education vouchers in FY 2010. These amounts are unchanged from FY 2009.

The \$35,237,700 amount would not include a Proposition 301 inflation adjustment in FY 2010. The special education voucher funding formula uses the same "base level" as the Basic State Aid formula and the Basic State Aid narrative assumes that that base level would not be increased by 2% in FY 2010 (see "2% Inflation Adjustment" policy issue under *Basic State Aid for more information*). An adjustment for enrollment growth likewise would not be included for the program in FY 2010, as caseloads for special education vouchers are projected to remain unchanged in FY 2010.

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 2010. This amount is unchanged from FY 2009.

This 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.

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 2010.

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) As permanent law, 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. § 15-185B4.
- 2) As session law, continue to fund state aid for JTEDs at a percentage that would freeze statewide JTED costs at the prior year level, while including a hold harmless provision.
- 3) As session law, continue the \$602,627,700 rollover and advance appropriate the required deferred payment and related interest costs in FY 2011.
- 4) As session law, continue to require school districts to include in the revenue estimates that they use for computing their budget year tax rates the rollover monies that they will receive for FY 2010 in FY 2011.
- 5) As session law, extend through FY 2010 the “soft cap” on desegregation expenditures established by Laws 2008, Chapter 287.
- 6) As permanent law, repeal the Rapid Decline funding formula in A.R.S. § 15-942.
- 7) As permanent law, specify the official K-12 QTR and State Equalization Assistance Property Tax rate for FY 2010, 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.

- 8) As permanent law, continue to authorize the Department of Education or Auditor General to conduct Average Daily Membership audits of school districts and charter schools.
- 9) As permanent law, repeal the new Excess Utilities funding formula in A.R.S. § 15-910.04.
- 10) As permanent law, repeal the State Equalization Assistance Property Tax levy authorized in A.R.S. § 15-994.
- 11) As permanent law, repeal the new teacher performance pay funding formula in A.R.S. § 15-977G3.
- 12) As permanent law, prohibit 8th and 9th grade students from taking JTED courses.
- 13) As session law, suspend the biennial Special Education cost study required by A.R.S. § 15-236 for FY 2010 and FY 2011.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Excess Utilities

The Education BRB for FY 2009 established in permanent law (A.R.S. § 15-910.04) a formula to fund excess utilities “within the Revenue Control Limit” starting in FY 2010. The JLBC Baseline would repeal the new formula. If implemented, it would shift excess utilities costs to the state General Fund starting in FY 2010, which would cost the state an estimated \$60,378,000 in FY 2010. Repealing the new funding formula for excess utilities for FY 2010 would require school districts to fund those costs without separately generated funding for that issue.

FY 2009 is the last year that school districts are allowed to budget for “excess utilities” outside of the Revenue Control Limit (RCL) under current law because Proposition 301 from the November 2000 General Election stipulated that authority for school districts to do so 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, which is the current practice for excess utilities. 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. The new formula, if implemented, would be expected to cost less because it is based on actual rather than budgeted costs, and on average costs from 2 prior fiscal years, rather than on current year costs, which are higher. In addition, actual expenditures for excess utilities tend to be substantially lower than budgeted amounts.

Currently (through FY 2009) Excess Utilities costs are funded with local property taxes, although the state pays an estimated \$14,300,000 of those taxes indirectly through the Homeowner’s Rebate. That estimated \$14,300,000 cost would be eliminated in FY 2010 under either the original Proposition 301 language or under A.R.S. § 15-

910.04 (see related discussion under “Additional State Aid” narrative for more information).

was reduced to offset funding from the new program during the phase-in period.

State Equalization Assistance Property Tax

A.R.S. § 15-994 requires the Board of Supervisors of each county to levy a “State Equalization Assistance Property Tax” (SETR) each year in order to help offset state costs for Basic State Aid. That tax, however, was suspended for FY 2007 through FY 2009 by Section 23 of Laws 2006, Chapter 254. The JLBC Baseline would permanently repeal the tax starting in FY 2010.

Prior to being suspended, the SETR was levied at a rate of \$0.4358 per \$100 of NAV. If reinstated for FY 2010, its new rate would be approximately \$0.3261 per \$100 of NAV, which would reflect cumulative TNT adjustments that would have occurred during the years that it was suspended (see related discussion under the “Truth in Taxation” for more information). A reinstated State Equalization Assistance Property Tax would generate an estimated \$246,700,000 in FY 2010, which would decrease Basic State Aid costs by that same amount, since both QTR and State Equalization Property Tax revenues offset Basic State Aid costs on a dollar for dollar basis.

Teacher Performance Pay

The Education BRB for FY 2009 established in permanent law (A.R.S. § 15-977G3) a new teacher performance pay program, to be implemented in 6 “stages” by FY 2018. The JLBC Baseline would repeal the program. If implemented, the program would be funded through the Classroom Site Fund, which currently allocates per pupil monies from Proposition 301. For each fiscal year in which the legislature appropriated sufficient monies for the program, A.R.S. § 15-977G3 would require the appropriated amount to equal the product of the base level prescribed in A.R.S. §15-901 multiplied by the prior year statewide weighted student count multiplied by the following percentage:

- For stage one, 1%
- For stage two, 2%
- For stage three, 3%
- For stage four, 4%
- For stage five, 5%
- For stage six, 5.5% by June 30, 2018.

The new program would increase formula funding for school districts that currently do not participate in Career Ladder or the Optional Performance Incentives Program (OPIP) by 5.5% by FY 2018.

School districts that currently participate in Career Ladder or OPIP would be allowed to either continue their current program or join the new program (but not both) under the new law; although they could participate in both during the phase-in period if their Career Ladder or OPIP funding