

Department of Education

	FY 2010 ACTUAL	FY 2011 ESTIMATE	FY 2012 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	237.9	192.5	192.5 ^{1/}
Personal Services	4,859,300	4,899,700	4,899,700
Employee Related Expenditures	2,132,200	2,060,400	1,632,200
Professional and Outside Services	289,900	326,400	1,526,400
Travel - In State	12,600	16,100	16,100
Travel - Out of State	1,100	0	0
Other Operating Expenditures	2,528,300	1,079,900	850,800
Equipment	46,800	0	0
OPERATING SUBTOTAL	9,870,200	8,382,500	8,925,200 ^{2/3/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	2,853,052,800	3,047,240,800	3,061,676,600 ^{4/-10/}
Additional State Aid	231,187,600	419,264,000	351,525,000
Special Education Fund	35,242,100	35,242,100	33,242,100
Other State Aid to Districts	734,400	983,900	983,900
School Accountability and Improvement			
Achievement Testing	7,238,200	10,230,100	10,217,400 ^{11/}
AIMS Intervention; Dropout Prevention	2,035,900	0	0
School Accountability	3,160,200	0	0
Education Services			
Adult Education and GED	1,698,700	0	0
Chemical Abuse	244,000	0	0
English Learner Administration	3,551,300	4,063,900	3,958,200 ^{12/}
Compensatory Instruction Fund Deposit	3,973,600	0	0
Arizona Structured English Immersion Fund	8,791,400	8,791,400	8,791,400
Family Literacy	360,200	0	0
Gifted Support	726,800	0	0
School Safety Program	4,028,000	0	0
State Block Grant - Early Childhood Education	6,515,600	0	0
State Block Grant - Vocational Education	11,503,800	11,492,700	11,492,700
Vocational Education Extended Year	238,500	0	0
Teacher Certification	1,797,000	2,227,800	1,781,200
State Board of Education			
State Board of Education	893,200	907,500	894,300 ^{13/}
AGENCY TOTAL	3,186,843,500	3,548,826,700	3,493,488,000 ^{14/15/16/} ^{17/}
FUND SOURCES			
General Fund	3,162,536,900	3,493,050,500	3,436,528,700
Other Appropriated Funds			
Education Learning and Accountability Fund	0	0	1,200,000
Permanent State School Fund	16,269,400	46,475,500	46,475,500
Proposition 301 Fund	6,077,500	7,000,000	7,000,000
Teacher Certification Fund	1,959,700	2,300,700	2,283,800
SUBTOTAL - Other Appropriated Funds	24,306,600	55,776,200	56,959,300
SUBTOTAL - Appropriated Funds	3,186,843,500	3,548,826,700	3,493,488,000
Other Non-Appropriated Funds			
Other Non-Appropriated Funds	438,683,100	406,147,000	442,024,600
Federal Funds	1,660,239,400	1,307,503,900	987,897,800
TOTAL - ALL SOURCES	5,285,766,000	5,262,477,600	4,923,410,400

AGENCY DESCRIPTION — The Department of Education is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2012 it is anticipated that the department will oversee 238 school districts, accommodation districts and Joint Technological Education Districts and approximately 400 charter schools in their provision of public education from preschool through grade 12.

Operating Budget

The budget includes \$8,925,200 and 97 FTE Positions for the operating budget in FY 2012. These amounts consist of:

	<u>FY 2012</u>
General Fund	\$7,591,300
Education Learning and Accountability Fund	1,200,000
Teacher Certification Fund	133,900

These amounts fund the following adjustments:

New Data System

Laws 2011, Chapter 29, the K-12 Education Budget Reconciliation Bill (BRB), appropriates an estimated \$1,200,000 in new fee revenue from the Education Learning and Accountability Fund in FY 2012 for a new data system to collect, compile, maintain and report student level data for students attending public preschool, K-12 and postsecondary educational programs in the state pursuant to A.R.S. § 15-249. The K-12 Education BRB also repeals the current version of A.R.S. § 15-249 pertaining to the new data system and replaces it with revised language.

- 1/ Includes 95.5 FTE Positions funded from Special Line Items in FY 2012.
- 2/ The operating lump sum appropriation includes \$291,100 and 4 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services. (General Appropriation Act footnote)
- 3/ Laws 2011, Chapter 29 appropriates an estimated \$1,200,000 in fee revenues from the Education Learning and Accountability Fund for a new data system. These monies are displayed as part of the Operating Subtotal.
- 4/ Includes K-12 rollover appropriation of \$952,627,700 from Laws 2010, 7th Special Session, Chapter 1. Laws 2011, Chapter 24 appropriates \$952,627,700 in FY 2013 to reflect the deferral of FY 2012 payments.
- 5/ 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 \$46,475,500 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2012. (General Appropriation Act footnote)
- 6/ The portion of the above appropriation for basic state aid for charter school additional assistance pursuant to A.R.S. § 15-185B4 includes a \$17,656,000 reduction. (General Appropriation Act footnote)
- 7/ The Department of Education shall transfer \$5,000,000 of its Basic State Aid appropriation for FY 2012 to the Education Learning and Accountability Fund. (General Appropriation Act footnote)
- 8/ Receipts derived from the Permanent State School Fund and any other non-state General Fund revenue source that is dedicated to fund Basic State Aid will be expended, whenever possible, before expenditure of state General Fund monies. (General Appropriation Act footnote)
- 9/ Except as required by A.R.S. § 37-521, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, the income from the investment of permanent funds as prescribed by the Enabling Act and the Constitution of Arizona and all monies received by the Superintendent of Public Instruction from whatever source, except monies received pursuant to A.R.S. § 15-237 and 15-531, when paid into the State Treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure shall not be made except as specifically authorized above. (General Appropriation Act footnote)
- 10/ Does not include monies from the federal Education Jobs Fund Program.
- 11/ Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall report the estimated fiscal impact of those changes to the Joint Legislative Budget Committee. (General Appropriation Act footnote)
- 12/ The appropriated amount is to be used by the Department of Education to provide English language acquisition services for the purposes of A.R.S. § 15-756.07 and for the costs of providing English language proficiency assessments, scoring and ancillary materials as prescribed by the Department of Education to school districts and charter schools for the purposes of Title 15, Chapter 7, Article 3.1, Arizona Revised Statutes. The Department of Education may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of A.R.S. § 15-756.07. Notwithstanding A.R.S. § 41-192, the Superintendent of Public Instruction also may use a portion of the appropriated amount to contract with one or more private attorneys to provide legal services in connection with the case of Flores v. State of Arizona, No. CIV 92-596-TUC-RCC. (General Appropriation Act footnote)
- 13/ The State Board of Education program may establish its own strategic plan separate from that of the Department of Education and based on its own separate mission, goals and performance measures. (General Appropriation Act footnote)
- 14/ The department shall provide an updated report on its budget status every 3 months for the first half of each fiscal year and every month thereafter to the President of the Senate, the Speaker of the House of Representatives, the Chairpersons of the Senate and House of Representatives Appropriations Committees, the Director of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for Basic State Aid and other major formula-based programs and shall be due 30 days after the end of the applicable reporting period. (General Appropriation Act footnote)
- 15/ Within 15 days of each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall post on its website in an electronic format the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)
- 16/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.
- 17/ In addition to these amounts, a total of \$329,700 GF and \$64,900 OF is appropriated in FY 2012 for costs associated with an additional pay period. (Please see the Agency Detail and Allocations section.)

The estimated \$1,200,000 amount will be generated by a \$6 one-time fee that the K-12 Education BRB requires community colleges and universities to collect per full-time student equivalent (FTSE) in FY 2012. The K-12 Education BRB requires community colleges and universities to deposit those fee revenues into the newly-created Education Learning and Accountability Fund (A.R.S. § 15-249.02), which was also established by the K-12 Education BRB, on or before December 1, 2011.

The new data system also will be funded with \$5,000,000 in Basic State Aid funding that the department is required to transfer into the Education Learning and Accountability Fund in FY 2012 pursuant to a footnote in the General Appropriation Act. (See SAIS Replacement policy issue under Basic State Aid for a related discussion.)

Statewide Adjustments

The budget includes a decrease of \$(657,300) from the General Fund in FY 2012 for statewide adjustments. (Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$3,061,676,600 for Basic State Aid in FY 2012. This amount consists of:

General Fund	3,015,201,100
Permanent State School Fund	46,475,500

The \$3,061,676,600 total does not include \$86,280,500 in “additional school day” funding from Proposition 301 that will be allocated through Basic State Aid in FY 2012 because those monies are non-appropriated (see Table 1). It also excludes local property taxes and federal Education Jobs Fund Program monies that will help fund K-12 formula costs for FY 2012, as they also are non-appropriated.

The \$3,105,201,100 appropriated total includes a net General Fund increase of \$14,435,800 and no change from the Permanent State School Fund for FY 2012. These amounts fund the following adjustments:

Base Adjustment - FY 2011 Supplemental

The budget includes a decrease of \$(1,865,100) from the General Fund in FY 2012 to eliminate one-time supplemental funding for Basic State Aid. Section 118 of the FY 2012 General Appropriation Act appropriated \$1,865,100 from the General Fund in FY 2011 to for-profit charter schools in order to fund a Basic State Aid funding shortfall for them for FY 2011. The FY 2012 budget assumes a Basic State Aid shortfall of roughly \$100,000,000 for FY 2011 and the K-12 Education BRB

requires school districts and not-for-profit charter schools to address their portion of that shortfall with monies provided by the Federal Education Jobs Fund Program Act of 2011 (Public Law No. 111-126). For-profit charter schools were not eligible to receive Education Jobs Fund Program monies, so a General Fund supplemental was instead provided for them for FY 2011. (Please see the “Federal Funds Cut/Backfill” narrative under Basic State Aid for further discussion of Education Jobs Fund Program monies.)

Table 1	
FY 2012 Basic State Aid Formula Summary	
General Fund	
FY 2011 Appropriation (with supplemental)	\$3,000,765,300
Base Adjustment – prior year supplemental ^{1/}	(1,865,100)
Base Adjustment – ARRA ^{2/}	92,800,000
Base Adjustment – Enrollment Growth & Misc ^{3/}	50,000,000
Enrollment Growth @ 1.6%	90,877,800
Property Taxes from New Construction	(24,182,300)
0.9% Inflatior	3,835,400
Soft Capital Reduction	(23,000,000)
CORL Reduction	(63,864,800)
Federal Funds Cut/Backfill – EDUJobs ^{4/}	(35,000,000)
Charter School Additional Assistance Reduction	(7,656,000)
JTED QTR Offset	4,485,700
JTED 9 th Grade Funding	(29,780,100)
Career Ladder Phase Out	(14,500,000)
Retirement Shift	(32,714,800)
SAIS Replacement	<u>5,000,000</u>
FY 2012 budget	3,105,201,100
Permanent State School Fund (no change)	46,475,500
Prop 301 Sales Tax (no change) ^{5/}	86,280,500
Local Property Taxes ^{5/6/}	
FY 2011 Base	2,279,258,100
Property Taxes from New Construction	<u>24,182,300</u>
FY 2012 estimated ^{6/}	2,303,440,400
Federal Monies ^{5/}	
ARRA ^{2/}	(92,800,000)
Education Jobs Fund Program ^{4/}	<u>35,000,000</u>
	(57,800,000)
Grand Total (all sources) ^{7/}	\$5,483,597,500
^{1/} To offset gain of one-time FY 2011 supplemental monies. ^{2/} To offset loss of one-time monies from the American Recovery and Reinvestment Act (ARRA). ^{3/} For prior year shortfall due to higher than budgeted enrollment growth and other technical factors. ^{4/} The budget permits school districts to use federal Education Jobs Fund Program monies to offset an additional \$(35,000,000) CORL reduction for FY 2012. ^{5/} Non-appropriated, so excluded from appropriated totals. ^{6/} An estimated \$352 million of this total will be funded by the state through the Homeowner’s Rebate. ^{7/} Statutory formula cost would be approximately \$310 million higher without the Soft Capital, CORL, charter school Additional Assistance and JTED reductions that are included in the budget on a session law basis.	

Base Adjustment - ARRA

The budget includes an increase of \$92,800,000 from the General Fund in FY 2012 in order to restore a one-time funding reduction authorized for FY 2011 by Laws 2010, 7th Special Session, Chapter 1. Chapter 1 reduced General Fund funding for Basic State Aid by \$(92,800,000) on a one-time basis in FY 2011 due to the availability of State Fiscal Stabilization Fund (SFSF) monies from the American Recovery and Reinvestment Act of 2009 (ARRA).

Base Adjustment - ADM

The budget includes an increase of \$50,000,000 from the General Fund in FY 2012 in order to adjust the program's base budget for prior year shortfalls that occurred due to higher than budgeted Average Daily Membership (ADM) growth and other technical factors.

Enrollment Growth

The budget includes an increase of \$90,877,800 from the General Fund in FY 2012 for enrollment growth. This assumes that total K-12 formula costs will increase by approximately 1.6% in FY 2012 due to 1.2% ADM growth for K-12 students as a whole (*see Table 2*) and 4.1% ADM growth for students in special education (*see Table 3*). Both types of growth affect formula costs, as special education students receive "add on" funding in addition to the formula monies that they receive for being part of the overall K-12 student population.

Table 2

K-12 ADM (unweighted)					
	<u>Districts</u>	<u>Charters</u>	<u>Total</u>	<u>Change</u>	<u>%</u>
2008	951,117	93,668	1,044,785	20,384	2.0%
2009	944,337	99,018	1,043,355	(1,430)	(0.1)%
2010	948,388	107,476	1,055,864	12,509	1.2%
2011 est	949,168	116,579	1,065,747	9,883	0.9%
2012 est	953,279	124,776	1,078,055	12,308	1.2%

Table 3

Special Education ADM (unweighted)					
	<u>Districts</u>	<u>Charters</u>	<u>Total</u>	<u>Change</u>	<u>%</u>
2008	14,402	498	14,900	948	6.8%
2009	15,298	588	15,886	986	6.6%
2010 est	15,498	714	16,212	326	2.0%
2011 est	16,040	837	16,877	665	4.1%
2012 est	16,602	967	17,569	692	4.1%

Property Taxes from New Construction

The budget includes a decrease of \$(24,182,300) from the General Fund in FY 2012 due to a projected 1.5% increase in statewide Net Assessed Value (NAV) from new construction in FY 2012. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$24,182,300 in FY 2012. It also will decrease state costs by \$(24,182,300), since QTR and SETR revenues offset state formula costs on a dollar for dollar basis.

Statewide NAV for property already on the tax rolls ("existing property") is expected to decrease by (16.3)% in FY 2012, resulting in a net (14.8)% NAV decline for new construction and existing property combined for FY 2012.

The projected (16.3)% NAV decline for existing property will not affect net QTR or SETR collections in FY 2012, however, because A.R.S. § 41-1276 (the "Truth in Taxation" or "TNT" law) requires the QTR and SETR to be adjusted each year in order to offset NAV changes for existing properties. As a result, the QTR will increase to \$3.54 (from \$2.96 currently) and the SETR will increase to \$0.43 (from \$0.36 currently) in FY 2012 in order to offset the estimated (16.3)% NAV decrease for existing property (*see Table 4*).

Table 4

<u>Tax Rate</u>	TNT Tax Rates	
	<u>FY 2011</u>	<u>FY 2012</u>
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$1.4797	\$1.7682
• Unified districts and elementary districts not located within a high school district	\$2.9594	\$3.5364
• State Equalization Tax Rate (SETR)	\$0.3564	\$0.4259

0.9% Inflation Adjustment

The budget includes an increase of \$3,835,400 from the General Fund in FY 2012 for a 0.9% inflation increase in the transportation funding levels prescribed in A.R.S. § 15-945A5 and the charter school "Additional Assistance" amounts prescribed in A.R.S. § 15-185B. It does not include a 0.9% increase in the "base level" prescribed in A.R.S. § 15-901B2, which remains in FY 2012 at the FY 2011 level of \$3,267.72 pursuant to a provision in the K-12 Education BRB. Funding a 0.9% increase in the base level would have cost an additional \$39,895,400 for a total inflation adjustment of \$43,730,800.

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 most recent prior calendar year, whichever is less. The FY 2012 adjustment is 0.9%, which equals the GDP price deflator for calendar year 2010. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of \$2,687.32.

Prior to FY 2011, the base level, transportation and charter additional assistance levels all were increased annually for inflation. In FY 2011, only the latter 2 items were increased for inflation. A lawsuit was subsequently filed with the State Supreme Court in August 2010 contending that the state must also increase the base level annually for inflation. The Supreme Court declined special-action jurisdiction over the case in September 2010 and it was refiled in Maricopa County Superior Court in October 2010. The Maricopa County Superior Court dismissed the lawsuit in February 2011, finding that the inflation

adjustment provision in Proposition 301 “is not self-executing.” That ruling is being appealed, with oral arguments anticipated in fall 2011.

Soft Capital Reduction

The budget includes a decrease of \$(23,000,000) from the General Fund in FY 2012 for Soft Capital funding authorized by A.R.S. § 15-962. This decrease is in addition to a \$(165,120,700) session law reduction continued from FY 2011 (from Laws 2010, 7th Special Session, Chapter 8). In total, Soft Capital funding will be \$(188,120,700) below the formula requirement in FY 2012.

The \$(188,120,700) reduction is authorized by the K-12 Education BRB. Unlike prior years, the K-12 Education BRB does not reduce by 50% the Soft Capital reductions that small school districts will experience for the year. It caps at \$5,000,000, however, the sum of Soft Capital and Capital Outlay Revenue Limit (CORL) reductions (discussed below) in FY 2012 for school districts with a student count of fewer than 1,100 pupils. The \$(188,120,700) Soft Capital reduction leaves an estimated \$23,988,100 in Soft Capital funding available to school districts statewide for FY 2012.

On a related note, Laws 2011, Chapter 195 amends A.R.S. § 15-962 to allow school districts to spend Soft Capital funding on any operating or Soft Capital item. Prior to this change, school districts could only spend Soft Capital monies on short-term capital items, such as technology, textbooks, buses, furniture and equipment, although that provision has been suspended on a session law basis in recent years in the K-12 Education BRB.

CORL Reduction

The budget includes a decrease of \$(63,864,800) from the General Fund in FY 2012 for CORL funding authorized by A.R.S. § 15-961. The \$(63,864,800) reduction is authorized by the K-12 Education BRB, which also authorizes an additional \$(35,000,000) CORL reduction in FY 2012 that school districts may offset with federal Education Jobs Fund Program monies (*see separate policy issue below*). The 2 CORL reductions combined leave an estimated \$153,403,700 in CORL funding available to school districts for FY 2012.

CORL monies originally were earmarked for capital costs only, but since 1986 school districts have been allowed to use them also for operating costs. In FY 2010 (latest available data) schools used approximately 63% of their CORL monies for operating expenditures.

Federal Funds Cut/Backfill

The budget includes a decrease of \$(35,000,000) from the General Fund in FY 2012 for CORL funding authorized by A.R.S. § 15-961. The \$(35,000,000) reduction is authorized by the K-12 Education BRB, which also authorizes the \$(63,864,800) CORL reduction for FY 2012

described above. The K-12 Education BRB authorizes school districts to use federal Education Jobs Fund Program (“EduJobs”) monies in FY 2012 in order to offset the \$(35,000,000) reduction. The U.S. Department of Education allocated \$207,657,300 in “EduJobs” monies to Arizona school districts and charter schools in August 2010. Those monies may be spent on salaries, benefits and other general operational expenses and must be expended by September 30, 2012. As of early May 2011, \$101,367,000 of EduJobs monies had not yet been expended.

Charter School Additional Assistance

The budget includes a decrease of \$(7,656,000) from the General Fund in FY 2012 for charter school Additional Assistance funding authorized by A.R.S. § 15-185B4. This change is authorized by the K-12 Education BRB and is separate from the 0.9% increase in charter school Additional Assistance per pupil funding that is discussed in the “0.9% Inflation Adjustment” narrative above.

JTED QTR Offset

The budget includes an increase of \$4,485,700 from the General Fund in FY 2012 in order to offset a reduction in QTR revenues that Joint Technical Education Districts (JTEDs) otherwise would experience due to declining property values. Property owners in JTED member districts pay an additional 5¢ QTR annually to support their JTED pursuant to A.R.S. § 15-971B3. Revenues from the 5¢ tax rate will decrease by an estimated \$(4,485,700) in FY 2012 due to the (14.8)% decline in statewide property values that is anticipated for FY 2012. Unlike school districts’ main QTR, the JTED QTR is set at 5 cents and does not change with property values.

JTED 9th Graders

The budget includes a decrease of \$(29,780,100) from the General Fund in FY 2012 to eliminate state funding for JTED 9th Graders. The K-12 Education BRB amends A.R.S. § 15-393 to prohibit JTEDs from including 9th Grade pupils in their ADM counts. This is expected to reduce Basic State Aid funding to JTEDs by \$(29,780,100), since 9th Graders currently account for approximately 26% of all JTED ADM. Laws 2011, Chapter 258, however, permits JTEDs to continue to serve 9th Grade pupils using local QTR monies only.

Career Ladder Phase Out

The budget includes a decrease of \$(14,500,000) from the General Fund in FY 2012 for the first year of a 5-year phase out of Career Ladder funding required by the K-12 Education BRB. The K-12 Education BRB reduces existing Career Ladder funding by 20% per year over the next 5 fiscal years, which would eliminate program funding by FY 2016. It also phases out state funding first, which maximizes the state savings in the initial years of the phase out. The budget assumes that Career Ladder districts otherwise would receive \$72,500,000 in Career Ladder funding for FY 2012, including an estimated

\$32,542,800 in state funding and \$39,957,200 from local property taxes.

On a related note, the K-12 Education BRB also repeals the teacher performance pay plan in A.R.S. §15-977G3. That law would have phased in Career Ladder funding for all school districts and charter schools by the end of FY 2018. Currently only 28 school districts participate in Career Ladder and no new districts have been admitted into the program since FY 1994.

Retirement Shift

The budget includes a decrease of \$(32,714,800) from the General Fund in FY 2012 for a retirement funding shift required by Laws 2011, Chapter 26 (the Budget Procedures BRB). As permanent law, Chapter 26 changed the employee/employer contribution split for the Arizona State Retirement System (ASRS) from 50/50 to 53/47, which will reduce employee benefit costs for public schools by an estimated \$(32,714,800) in FY 2012. Chapter 26 requires the department to reduce Basic State Aid funding to public schools in FY 2012 by the amount of the estimated savings in order to capture a state savings for this issue. This will reduce Basic State Aid costs by an estimated \$(32,714,800) in FY 2012. *(Please see the budget pages for the Arizona State Retirement System for more information.)*

SAIS Replacement

The budget includes an increase of \$5,000,000 from the General Fund in FY 2012 in order to help fund a new statewide data system for public preschool, K-12 and postsecondary educational programs pursuant to A.R.S. § 15-249. A footnote in the General Appropriation Act requires the department to transfer these monies to the Education Learning and Accountability Fund, which will be the funding source for the new data system *(see New Data System policy issue above for related discussion)*.

Endowment Earnings

The budget includes no change from the Permanent State School Fund in FY 2012 for endowment earnings funding for Basic State Aid. This is due to no estimated change in \$25,787,500 of FY 2012 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 prior years in order to fund deficiencies correction in public schools. This leaves the amount of land trust monies available to fund Basic State Aid in FY 2012 at \$46,475,500 (unchanged).

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.

Rollover

The budget includes no change from the General Fund in FY 2012 for the K-12 rollover. This continues to defer \$952,627,700 of current year (now FY 2012) state aid payments until the following fiscal year (now FY 2013). As a result, the 12 monthly payments that school districts will receive in FY 2012 under the budget will again consist of 3 deferred payments from the prior year and 9 (rather than 12) payments from the current year. Laws 2010, 7th Special Session, Chapter 1 advance appropriated \$952,627,700 from the General Fund in FY 2012 in order to fund the \$952,627,700 deferred obligation from FY 2011. Those monies therefore do not appear in the FY 2012 General Appropriation Act. That Act, however, advance appropriates \$952,627,700 from the General Fund in FY 2013 in order to fund the deferred FY 2012 obligation.

As a result of existing rollovers, the base budget for Basic State Aid going into FY 2012 continues to include a total deferred obligation of \$952,627,700. That amount includes \$272,627,700 for the original FY 2008 rollover, \$330,000,000 for the additional FY 2009 rollover and \$350,000,000 for the additional FY 2010 rollover.

Continuation of Prior Year Session Law

The budget includes no change from the General Fund in FY 2012 for the following session law changes from FY 2011, which are continued for FY 2012 by the K-12 Education BRB:

- Joint Technological Education Districts – Fund state aid for JTEDs at 91% of the amount that otherwise would be provided by law.
- Early Graduation Scholarship Program – Suspend new funding for the program, but allow current participants to continue to receive scholarships to the extent permitted by existing fund balances.

Additional State Aid

The budget includes \$351,525,000 in FY 2012 from the General Fund for Additional State Aid (ASA). These amounts fund the following adjustments:

Changes in Property Values and Tax Rates

The budget includes an increase of \$2,761,000 from the General Fund in FY 2012 for projected changes in property values and tax rates for homeowners statewide for FY 2012. This assumes a (14.9)% decline in property values for Class III properties (owner occupied homes, both new and existing) statewide and a 19.5% increase in the average QTR paid by homeowners.

Homeowner's Rebate on QTR Only

The budget includes a decrease of \$(70,500,000) from the General Fund for limiting the Homeowner's Rebate to only the K-12 QTR starting in FY 2012. This change is

required by Laws 2010, 7th Special Session, Chapter 8. Through FY 2011, school primary taxes for desegregation, the small school district budget exemption (A.R.S. § 15-949), the difference between a district's Transportation Revenue Control Limit (TRCL) and its Transportation Support Level (TSL), and interest on registered warrants also are subsidized with Homeowner's Rebate funding.

Background – Additional State Aid is authorized by A.R.S. § 15-972, which requires the state to pay 40% of each homeowner's school district primary property taxes, up to a maximum of \$600 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 exceed 1% of the full cash value of their home.

On a related note, the Commerce Authority Bill (Laws 2011, 2nd Special Session, Chapter 1) limits the Homeowners' Rebate to the primary residence of in-state residents only and requires homeowners to submit an affidavit that a home is their primary residence. These changes are expected to take effect starting in FY 2013 and reduce program costs by approximately \$(39,000,000) starting that year.

Chapter 1 also increases the Homeowners' Rebate percentage for FY 2014 through FY 2018 by an amount to be determined by the Department of Revenue that would offset for homeowners the tax shift that otherwise would occur under the bill due to assessment ratio changes for Class 1 and Class 2 properties. This provision is estimated to increase Homeowners' Rebate costs by \$15,600,000 in FY 2014 with the increase growing to \$93,000,000 by FY 2017, when the bill is fully implemented.

Special Education Fund

The budget includes \$33,242,100 and 1 FTE Position from the General Fund in FY 2012 for the Special Education Fund Special Line Item. These amounts fund the following adjustments:

Base Adjustment

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2012 as a base adjustment in order to eliminate surplus program funding. Program costs have decreased in recent years due to declines in special education voucher caseloads at the Arizona State School for the Deaf and the Blind (ASDB).

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.

Starting in FY 2012, the Special Education Fund also will fund Arizona Empowerment Scholarship Accounts (ESAs) pursuant to Laws 2011, Chapter 75. Chapter 75 authorizes the parents of a child with a disability to participate in an ESA for their child if the child 1) attended a public school for at least the first 100 days of the prior fiscal year and transferred to a qualified private school, 2) participated in the ESA program in the prior year, or 3) received in the prior year a scholarship from a "corporate" school tuition organization pursuant to A.R.S. § 43-1505.

Chapter 75 requires the department to transfer annually to the State Treasurer for deposit into a qualifying pupil's ESA an amount equal to 90% of the base support level funding that the pupil otherwise would receive for the fiscal year if they attended public school. The cost to the Special Education Fund of this provision is expected to be offset by the Basic State Aid savings associated with the student's departure from public school. Chapter 75 requires parents to renew their child's ESA annually.

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2012 for Other State Aid to Districts. This amount is unchanged from FY 2011.

This amount includes \$880,200 (unchanged) for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 (unchanged) for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

School Accountability and Improvement

Achievement Testing

The budget includes \$10,217,400 and 3 FTE Positions in FY 2012 for Achievement Testing. These amounts consist of:

General Fund	3,217,400
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(12,700) from the General Fund in FY 2012 for statewide adjustments.

This Special Line Item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the "up to \$7 million" allowable appropriation for School Accountability in A.R.S. § 42-5029E7.

Table 5 shows current achievement testing costs by year under the current 5-year contract. The state typically funds approximately 55% of annual testing costs and federal monies typically fund about 45% of those costs.

Fiscal Year	Contract Cost
FY 2010	\$11,833,200
FY 2011	13,487,600
FY 2012	15,001,000
FY 2013	13,652,300
FY 2014	<u>14,243,100</u>
Total	\$68,217,200

AIMS Intervention; Dropout Prevention

The budget includes no funding in FY 2012 for the AIMS Intervention; Dropout Prevention program. Monies in this line item provided additional academic support for high school pupils considered most likely to drop out of school pursuant to A.R.S. § 15-809. This SLI was eliminated in the FY 2011 budget.

The K-12 Education BRB continues to notwithstanding for FY 2012 an annual performance audit requirement for the program in A.R.S. § 15-809C.

School Accountability

The budget includes no funding in FY 2012 for School Accountability. Program funding was used primarily to cover costs of solution teams that are assigned to help underperforming schools pursuant to A.R.S. § 15-241P. Program funding also was used to fund analysis of student achievement testing data in order to determine the academic effectiveness of individual schools and to fund a portion of maintenance costs of the Student Accountability Information System (SAIS). This SLI was eliminated in the FY 2011 budget.

Education Services

Adult Education and GED

The budget includes no funding in FY 2012 for Adult Education and GED (General Education Development). The program funded immigrant education and adult basic education programs that received funding through the department pursuant to A.R.S. § 15-234. This SLI was eliminated in the FY 2011 budget.

Chemical Abuse

The budget includes no funding in FY 2012 for the Chemical Abuse SLI. The program funded chemical abuse prevention programs for students in Grades K-12 pursuant to A.R.S. § 15-712. This SLI was eliminated in the FY 2011 budget.

English Learner Administration

The budget includes \$3,958,200 and 24.5 FTE Positions from the General Fund in FY 2012 for English Learner Programs. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(105,700) from the General Fund in FY 2012 for statewide adjustments.

The program was originally authorized by Laws 2006, Chapter 4 in order to address the Flores v. State of Arizona litigation. The lawsuit was filed in federal court in 1992 by parents of children enrolled in the Nogales Unified School District. Litigation in the case has been ongoing. The timeline for final resolution in the case in district court is unknown at the time of this writing. (See FY 2011 Appropriations Report for additional history of this issue.)

The SLI funds costs associated with implementing the English Language Education requirements in A.R.S. § 15-751 through 15-757. Those requirements pertain primarily to additional testing, teacher training and instructional services prescribed for English Learners.

Compensatory Instruction Fund Deposit

The budget includes no funding in FY 2012 for the Compensatory Instruction Fund Deposit. The program funded individual or small group instruction, extended day classes, summer school or intersession school for English Learners pursuant to A.R.S. § 15-756.11. This SLI was eliminated in the FY 2011 budget.

Arizona Structured English Immersion Fund

The budget includes \$8,791,400 from the General Fund in FY 2012 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2011.

The Arizona Structured English Immersion Fund was established by Laws 2006, Chapter 4 (A.R.S. § 15-756.04). Monies in the fund are distributed to school districts based on amounts that they request pursuant to A.R.S. § 15-756.04C.

Family Literacy

The budget includes no funding in FY 2012 for Family Literacy. The program sought to increase the basic academic and literacy skills of undereducated low-income parents and their preschool children pursuant to A.R.S. § 15-191.01. This SLI was eliminated in the FY 2011 budget.

Gifted Support

The budget includes no funding in FY 2012 for Gifted Support. The program funded Gifted Education pursuant to A.R.S. § 15-779.03. This SLI was eliminated in the FY 2011 budget.

School Safety Program

The budget includes no funding in FY 2012 for the School Safety Program. The program, however, will continue to receive \$7,800,000 in Proposition 301 sales tax monies that are automatically appropriated to it each year pursuant to A.R.S. § 42-5029E6.

The program places peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154. General Fund funding for the program was eliminated in the FY 2011 budget.

State Block Grant for Early Childhood Education

The budget includes no funding in FY 2012 for the State Block Grant for Early Childhood Education. The program provided block grants to school districts and charter schools for efforts aimed at improving the academic achievement of pupils in preschool through Grade 3 pursuant to A.R.S. § 15-1251. This SLI was eliminated in the FY 2011 budget.

State Block Grant for Vocational Education

The budget includes \$11,492,700 and 31 FTE Positions from the General Fund in FY 2012 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2011.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. CTE programs also currently receive approximately \$26,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal “maintenance of effort” (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Vocational Education Extended Year

The budget includes no funding in FY 2012 for Vocational Education Extended Year. This funding was used to enable students to attend an extended year or summer school program in a joint technological education district pursuant to A.R.S. § 15-783.02. This SLI was eliminated in the FY 2011 budget.

Teacher Certification

The budget includes \$1,781,200 and 27 FTE Positions from the Teacher Certification Fund in FY 2012 for Teacher Certification. These amounts fund the following adjustments:

Eliminate Temporary Loan

The budget includes a decrease of \$(429,700) from the General Fund in FY 2012 to eliminate temporary start up funding that was loaned to the newly-created Teacher Certification Fund for FY 2011.

Statewide Adjustments

The budget includes a decrease of \$(16,900) from the Teacher Certification Fund in FY 2012 for statewide adjustments.

The program processes applications for teacher and administrator certification, including certification renewal. It is funded through fees paid by certification applicants pursuant to A.R.S. § 15-531.

State Board of Education

State Board of Education

The budget includes \$894,300 and 9 FTE Positions in FY 2012 for the State Board of Education. These amounts consist of:

General Fund	525,600
Teacher Certification Fund	368,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(13,200) from the General Fund in FY 2012 for statewide adjustments.

The 11-member State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

Fund Transfers

The budget includes transfers from this agency's funds to the General Fund. (*Please see the Fund Transfers section at the back of this report for more details.*)

Additional Legislation

Additional Repeals

In addition to provisions described above, the K-12 Education BRB repeals the "actual utilities" formula in A.R.S. § 15-910.04 and the special education cost study required by A.R.S. § 15-236.

Classroom Site Fund, Bonding and Overrides

Laws 2011, Chapter 344 sets the Classroom Site Fund (CSF) per pupil amount at \$120, rather than the \$94 amount established pursuant to A.R.S. § 15-977G1. This will allow public schools to spend an additional \$26 per pupil from their local level CSF during FY 2012 either by borrowing the difference temporarily from their other local funds or by funding it with surplus FY 2012 CSF revenues, if any.

Chapter 344 also allows school districts to base their FY 2012 override funding on an alternative Revenue Control Limit (RCL) that assumes a 0.9% increase in the per pupil "base level" for FY 2012 (which the budget did not fund) and a weighted student count for Kindergarten that assumes that the Kindergarten "Group B" weight repealed by the FY 2011 budget is still in effect. This is expected to give school districts statewide roughly \$27,000,000 in additional override funding capacity for FY 2012 beyond what would exist under the "regular" RCL computation. K-12 overrides are based on a percentage of a school district's RCL.

In addition, Chapter 344 increases Class B bonding capacity for school construction and other long-term capital needs from 10% to 20% for unified school districts and from 5% to 10% for other school districts for bonds approved by voters before April 15, 2011. It also allows school districts to seek voter approval to change spending plans for bonds already approved and extend from 6 to 10 years the time period to issue Class B Bonds authorized in 2009 and earlier.