

Department of Education

	FY 2011 ACTUAL	FY 2012 ESTIMATE	FY 2013 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	192.5	192.5	171.4 ^{1/}
Personal Services	4,529,400	4,486,700	4,586,700
Employee Related Expenditures	1,988,500	1,998,800	1,992,000
Professional and Outside Services	179,900	1,374,200	184,200
Travel - In State	7,800	7,100	12,100
Travel - Out of State	7,800	7,800	7,800
Other Operating Expenditures	1,637,300	1,020,800	1,039,600
Equipment	101,900	72,900	82,900
OPERATING SUBTOTAL	8,452,600	8,968,300	7,905,300 ^{2/3/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,032,088,200	3,094,391,400	3,121,705,000 ^{4-/8/}
K-3 Reading	0	0	40,000,000 ^{9/}
Additional State Aid	414,716,400	351,525,000	303,188,200
Special Education Fund	35,242,100	33,242,100	33,242,100
Other State Aid to Districts	588,700	983,900	983,900
Non-Formula Programs			
Accountability and Achievement Testing	7,254,600	10,218,300	10,218,400 ^{10/}
Arizona Structured English Immersion Fund	8,790,400	4,791,400	8,791,400 ^{11/}
Education Learning and Accountability System	0	0	6,200,000 ^{12/}
English Learner Administration	4,063,900	7,966,500	3,967,700 ^{13/}
Innovative Education Program Grants	0	0	3,000,000 ^{14/}
School Safety Program	1,291,500	0	0
State Block Grant - Vocational Education	11,503,900	11,492,700	11,494,500
Teacher Certification	1,798,100	1,790,700	1,787,700
State Board of Education			
State Board of Education	907,500	895,500	1,583,800 ^{15/}
AGENCY TOTAL	3,526,697,900	3,526,265,800 ^{16/}	3,554,068,000 ^{17/-19/}
FUND SOURCES			
General Fund	3,487,765,200	3,469,297,000	3,496,900,300
Other Appropriated Funds			
Department of Education Empowerment Scholarship Account Fund	0	0	200,000
Education Learning and Accountability Fund	0	1,200,000	1,200,000
Permanent State School Fund	32,497,100	46,475,500	46,475,500
Proposition 301 Fund	4,134,900	7,000,000	7,000,000
Teacher Certification Fund	2,300,700	2,293,300	2,292,200
SUBTOTAL - Other Appropriated Funds	38,932,700	56,968,800	57,167,700
SUBTOTAL - Appropriated Funds	3,526,697,900	3,526,265,800	3,554,068,000
Other Non-Appropriated Funds			
Federal Funds	432,504,500	467,671,900	456,187,600
TOTAL - ALL SOURCES	1,325,216,000	1,199,433,400	1,199,433,400
TOTAL - ALL SOURCES	5,284,418,400	5,193,371,100	5,209,689,000

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2013 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 \$7,905,300 and 86.4 FTE Positions in FY 2013 for the operating budget. These amounts consist of:

	FY 2013
General Fund	\$7,571,000
Department of Education Empowerment	
Scholarship Account Fund	200,000
Teacher Certification Fund	134,300

These amounts fund the following adjustments:

- 1/ Includes 85 FTE Positions funded from Special Line Items in FY 2013.
- 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 2012, Chapter 360 appropriates an estimated \$200,000 in monies transferred from Arizona Empowerment Scholarship Accounts for administration of the Arizona Empowerment Scholarship Accounts program. These monies are displayed as part of the Operating Subtotal.
- 4/ Includes K-12 rollover appropriation of \$952,627,700 from Laws 2011, Chapter 24. Laws 2012, Chapter 294 appropriates \$952,627,700 in FY 2014 to reflect the deferral of FY 2013 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 2013. (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 \$15,656,000 reduction. (General Appropriation Act footnote)
- 7/ Receipts derived from the Permanent State School Fund and any other nonstate 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)
- 8/ 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)
- 9/ The appropriated amount is for funding costs of the K-3 reading weight established in A.R.S. § 15-943, except that the State Board of Education may use up to \$1,500,000 of the appropriated amount on technical assistance and state level administration of the K-3 reading program. The appropriated amount includes 2 FTE positions. (General Appropriation Act footnote)
- 10/ 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)
- 11/ The department may use a portion of the appropriated amount to fund a new English language proficiency assessment. (General Appropriation Act footnote)
- 12/ For FY 2013, the State Board of Education, in collaboration with the department, shall report quarterly by the last day of each calendar quarter on its progress in implementing the Education Learning and Accountability System and other related projects that may be funded through the Education Learning and Accountability Fund 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. The quarterly report shall include an assessment of progress from an independent third party that is not affiliated with state government. (General Appropriation Act footnote)
- 13/ 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)
- 14/ The State Board of Education shall use the appropriated one-time amount to fund innovative educational programs in public schools. The State Board of Education shall award program funding on a competitive grant basis. Grants shall be awarded only for use in school districts and charter schools for innovative education programs that have a proven track record of success in improving student achievement and on related technology, instructional delivery and materials. Each grantee shall be required to match its state grant with an equal or greater amount of private sector funding. Grantees shall submit a report on program results to the State Board of Education on or before October 1, 2013. (General Appropriation Act footnote)
- 15/ 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)
- 16/ 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.)
- 17/ 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)
- 18/ 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)
- 19/ In addition to these amounts, the General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance payment holiday and employee retention payments. These specific adjustments will be allocated to individual agencies at a later time. (Please see the General Provisions section.)

Move Data System Funding

The budget includes a decrease of \$(1,200,000) from the Education Learning and Accountability Fund in FY 2013 in order to move funding for the Education Learning and Accountability System (ELAS) from the department's operating budget to a separate special line item (see "Education Learning and Accountability System" special line item narrative below for more information).

Empowerment Scholarship Account Administration

Laws 2012, Chapter 360 appropriates \$200,000 from the Department of Education Empowerment Scholarship Account Fund (which it also establishes) in FY 2013 to fund administration of the program authorized in A.R.S. § 15-2402. Chapter 360 authorizes the department to transfer into the new Department of Education Empowerment Scholarship Account Fund up to 5% of amounts transferred from Basic State Aid to students' empowerment accounts pursuant to A.R.S. § 15-2402C. The appropriated amount will be funded from such transfers. Monies in the Department of Education Empowerment Scholarship Account Fund are non-lapsing. The appropriated amount is being displayed as part of the department's operating budget for FY 2013. (See the "Additional Legislation" section for more information on changes to Empowerment Scholarships Accounts made by Chapter 360.)

Statewide Adjustments

The budget includes a decrease of \$(63,000) in FY 2013 for statewide adjustments. This amount consists of:

General Fund	(63,400)
Teacher Certification Fund	400

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$3,121,705,000 in FY 2013 for Basic State Aid. This amount consists of:

General Fund	3,075,229,500
Permanent State School Fund	46,475,500

The \$3,121,705,000 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 2013 because those monies are non-appropriated (see Table 1). It also excludes local property taxes that will help fund K-12 formula costs for FY 2013, as they also are non-appropriated. In addition, it excludes \$40,000,000 appropriated in FY 2013 for costs of a new K-3 Reading weight in the Basic State Aid formula, as those monies are appropriated to a separate special line item (see narrative for "K-3 Reading" special line item below).

The \$3,121,705,000 appropriated total includes a net General Fund increase of \$27,313,600 and no change from the Permanent State School Fund for FY 2013. FY 2013 adjustments are as follows:

Table 1

FY 2013 Basic State Aid Formula Summary

General Fund	
FY 2012 Appropriation ^{1/}	\$3,047,915,900
Base Adjustment	(44,445,700)
Enrollment Growth @ 0.9%	48,118,800
CORL (replace "EduJobs" monies)	35,000,000
Property Taxes - New Construction	(29,390,500)
CORL & Additional Assistance Increases	15,000,000
2.0% Inflator	8,864,700
Career Ladder Phase Out	(8,102,300)
Move Data System Funding	(5,000,000)
Property Taxes - Business Personal Property	4,800,000
JTED QTR Offset	<u>2,468,600</u>
FY 2013 budget	3,075,229,500
K-3 Reading Program (separate Special Line Item)	40,000,000
Permanent State School Fund (no change)	46,475,500
Prop 301 Sales Tax (no change) ^{2/}	86,280,500
Local Property Taxes ^{2/}	
FY 2012 Base	2,300,246,300
Property Taxes from New Construction	<u>29,390,500</u>
FY 2013 Estimated ^{3/}	2,329,636,800
Grand Total (all sources) ^{4/}	\$5,577,622,300

^{1/} Includes FY 2012 supplemental of \$32,714,800 for reversing the state retirement system fund shift included in the original FY 2012 budget.

^{2/} Non-appropriated, so excluded from appropriated totals.

^{3/} An estimated \$294,325,200 of this total will be funded by the state through the Homeowner's Rebate.

^{4/} Statutory formula cost would be approximately \$260,000,000 higher without the Soft Capital, CORL, charter school Additional Assistance and JTED reductions that are continued in the budget on a session law basis.

Retirement Shift

The budget continues funding from the General Fund in FY 2013 to reverse a state retirement fund shift included in the original FY 2012 budget. This maintains for FY 2013 the \$32,714,800 in supplemental General Fund funding that was appropriated in FY 2012 by Laws 2012, Chapter 304 to reverse the fund shift. The shift was originally required by Laws 2011, Chapter 26 and would have reduced employee benefit costs for public schools by an estimated \$(32,714,800) in FY 2012. Chapter 304 repealed the shift prior to the end of FY 2012.

Base Adjustment

The budget includes a decrease of \$(44,445,700) from the General Fund in FY 2013 in order to adjust the program's base budget for a projected FY 2012 surplus due to lower than projected enrollment growth from FY 2011. Payment data from the department indicate a (1.2)% decline in the statewide ADM count for FY 2011. (On a "weighted" ADM basis, the statewide count declined by (0.8)%, with the difference being due to growth in special education "Group B" counts.) That decline affected formula costs for non-growing districts for FY 2012, since their formula costs are based on prior year ADM. The FY 2012 budget assumed 0.9% (positive) ADM growth for FY 2011.

Enrollment Growth

The budget includes an increase of \$48,118,800 from the General Fund in FY 2013 for enrollment growth. This assumes that total K-12 formula costs will increase by approximately 0.9% in FY 2013 due to 0.4% ADM growth for K-12 students as a whole (see Table 2) and 3.7% 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

Fiscal Year	K-12 ADM (unweighted) ^{1/}				
	Districts	Charters	Total	Change	% Change
2008	947,396	93,851	1,041,247	15,542	1.5%
2009	941,138	101,145	1,042,283	1,036	0.1%
2010	935,845	110,821	1,046,666	4,383	0.4%
2011	913,781	120,173	1,033,954	(12,712)	(1.2)%
2012 est	907,828	132,779	1,040,608	6,654	0.6%
2013 est	903,895	141,172	1,045,067	4,460	0.4%

^{1/} Actuals for FY 2008 through FY 2011 are from ADE payment data.

Table 3

Fiscal Year	Special Education ADM (unweighted) ^{1/}				
	Districts	Charters	Total	Change	% Change
2008	14,383	498	14,881	930	6.7%
2009	15,182	588	15,770	889	6.0%
2010	15,461	734	16,195	425	2.7%
2011	16,244	928	17,172	977	6.0%
2012 est	16,804	1,068	17,872	700	4.1%
2013 est	17,359	1,175	18,534	662	3.7%

^{1/} Actuals for FY 2008 through FY 2011 are from ADE payment data. Excludes “Group B” category that only receives funding weight of 0.003 (100,264 additional students for FY 2011).

CORL/EduJobs

The budget includes an increase of \$35,000,000 from the General Fund in FY 2013 in order to replace one-time federal “EduJobs” monies that are no longer available to help fund Capital Outlay Revenue Limit (CORL) formula costs for FY 2013. The General Appropriation Act for FY 2012 (Laws 2011, Chapter 24) reduced CORL funding to school districts by \$(35,000,000) in FY 2012, but authorized school districts to use a portion of their one-time federal “EduJobs” monies in order to offset the reduction. This adjustment restores the associated \$35,000,000 in state CORL funding for FY 2013. The federal “EduJobs” law was enacted into law in August 2010 and provided states with \$10 billion in assistance to save or create education jobs for the 2010-2011 school year. (See “Federal Funds Cut/Backfill” narrative on page 87 of the FY 2012 Appropriations Report for more information.)

Property Taxes from New Construction

The budget includes a decrease of \$(29,390,500) from the General Fund in FY 2013 due to a projected 1.43% increase in statewide Net Assessed Value (NAV) from

new construction in FY 2013. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$29,390,500 in FY 2013. It also will decrease state costs by \$(29,390,500), 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 (9.72)% in FY 2013, resulting in a net (8.29)% NAV decline for new construction and existing property combined for FY 2013.

The projected (9.72)% NAV decline for existing property will not affect net QTR or SETR collections in FY 2013, 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 \$3.92 (from \$3.54 currently) and the SETR will increase to \$0.47 (from \$0.43 currently) in FY 2013 in order to offset the estimated (9.72)% NAV decrease for existing property (see Table 4).

Table 4

Tax Rate	TNT Tax Rates	
	FY 2012	FY 2013
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$1.7682	\$1.9585
• Unified districts and elementary districts not located within a high school district	\$3.5364	\$3.9170
• State Equalization Tax Rate (SETR)	\$0.4259	\$0.4717

CORL and Additional Assistance

The budget includes an increase of \$15,000,000 from the General Fund in FY 2013 for increases in CORL and Additional Assistance funding. This amount includes a \$13,000,000 CORL increase and \$2,000,000 Additional Assistance increase for FY 2013. Both increases will be implemented by reducing formula suspensions continued from FY 2012. The \$2,000,000 Additional Assistance increase will reduce the Additional Assistance suspension from \$(17,656,000) in FY 2012 to \$(15,656,000) in FY 2013. The \$13,000,000 CORL increase will reduce the CORL suspension from \$(63,864,800) in FY 2012 to \$(50,864,800) in FY 2013.

The actual CORL suspension for FY 2013, however, will be \$(80,864,800) because \$(30,000,000) of the continued Soft Capital suspension from FY 2012 is being shifted to CORL due to declining Soft Capital allocations. The Soft Capital funding suspension for FY 2013 will be \$(158,120,700) versus \$(188,120,700) for FY 2012 because of this funding shift. The shift will have no practical effect on school districts because they can spend both CORL and Soft Capital funding on the same items.

The required formula suspensions for CORL, Soft Capital and Additional Assistance for FY 2013 are all authorized by the K-12 Education Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 300). The K-12 Education BRB also continues for FY 2013 a \$5,000,000 cap on the sum of Soft Capital and CORL reductions for school districts with a student count of fewer than 1,100 pupils.

2.0% Inflation Adjustment

The budget includes an increase of \$8,864,700 from the General Fund in FY 2013 for a 2.0% 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 2.0% increase in the “base level” prescribed in A.R.S. § 15-901B2, which the K-12 Education BRB keeps at the FY 2012 level of \$3,267.72 for FY 2013. Funding a 2.0% increase in the base level for FY 2013 would have cost an additional estimated \$87,515,800 for a total estimated inflation adjustment cost of \$96,380,500.

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 budgeted FY 2013 adjustment is 2.0%, which is slightly lower than the currently reported 2.1% GDP price deflator for calendar year 2011. 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 and FY 2012, only the latter 2 items were increased for inflation. The FY 2013 budget continues the policy of the prior 2 years.

A lawsuit was 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 currently remains under appeal.

Career Ladder Phase Out

The budget includes a decrease of \$(8,102,300) from the General Fund in FY 2013 for the second year of a 5-year phase out of Career Ladder funding required by Laws 2011, Chapter 29. Chapter 29 phases out existing Career Ladder funding over 5 fiscal years, starting in FY 2012, 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 budgeted \$(8,102,300) decrease will provide Career

Ladder districts with an estimated \$42,643,300 in total program funding for FY 2013. That total includes an estimated \$7,232,800 in state funding and \$35,410,500 from local property taxes. A total of 28 school districts participate in the Career Ladder program.

Move Data System Funding

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2013 in order to move General Fund funding for the new Education Learning and Accountability System (ELAS) from Basic State Aid to a separate special line item. (See “Education Learning and Accountability System” special line item narrative below for more information.)

Business Personal Property

The budget includes an increase of \$4,800,000 from the General Fund in FY 2013 in order to offset an anticipated reduction in K-12 QTR tax collections for FY 2013 due to tax law changes pertaining to business personal property. Laws 2011, 2nd Special Session, Chapter 1 modifies the depreciation schedule for business personal property in a manner that will decrease that taxable value of such property starting in FY 2013. This change is expected to reduce K-12 QTR revenues by an estimated \$(4,800,000) in FY 2013. This will increase state costs under the K-12 formula by an estimated \$4,800,000, since QTR revenues offset state K-12 formula costs on a dollar for dollar basis.

JTED QTR Offset

The budget includes an increase of \$2,468,600 from the General Fund in FY 2013 in order to offset a reduction in QTR revenues that Joint Technical Education Districts (JTEDs) otherwise would experience in FY 2013 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 \$(2,468,600) in FY 2013 due to the anticipated (8.29)% decline in statewide property values for the budget year. Unlike school districts’ “main” QTR, the JTED QTR is set at a flat 5¢ and does not change annually along with property values. The FY 2012 budget included first-time funding for this issue.

On a related note, the K-12 Education BRB continues to fund state aid for JTEDs at 91% of the amount that otherwise would be provided by law. It also amends A.R.S. § 393D5b to allow JTEDs to fund JTED courses for 8th Graders using its local 5¢ QTR monies.

Endowment Earnings

The budget includes no change from the Permanent State School Fund in FY 2013 for endowment earnings funding for Basic State Aid. This assumes no change in 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, which would remain at \$25,787,500 for FY 2013. This

leaves the amount of land trust monies available to fund Basic State Aid in FY 2012 at \$46,475,500 (unchanged). A.R.S. § 37-521 caps the amount of K-12 endowment earnings that may be used for SFB debt service and Basic State Aid combined at the FY 2001 level of endowment earnings, which was \$72,263,000.

Endowment Earnings consist of interest and other gains 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 2013 for the K-12 rollover. This continues to defer through the General Appropriation Act \$952,627,700 of current year (now FY 2013) state aid payments until the following fiscal year (now FY 2014). As a result, the 12 monthly payments that school districts will receive in FY 2013 under the budget will again consist of approximately 4.5 months of deferred payments from the prior year and 7.5 (rather than 12) payments from the current year. Laws 2011, Chapter 24 advance appropriated \$952,627,700 from the General Fund in FY 2013 in order to fund the \$952,627,700 deferred obligation from FY 2012. Those monies therefore do not appear in the FY 2013 General Appropriation Act. The Act, however, advance appropriates \$952,627,700 from the General Fund in FY 2014 in order to fund the deferred FY 2013 obligation. The General Appropriation Act for FY 2013 also continues to require school districts to include in the FY 2013 revenue estimates that they use for computing their FY 2013 tax rates the rollover monies that they will receive for FY 2013 in July or August 2013.

As a result of existing rollovers, the budget continues to include a total deferred obligation of \$952,627,700 for FY 2013. 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.

Early Graduation Scholarship Program

The budget includes no change from the General Fund in FY 2013 for the Early Graduation Scholarship program authorized in A.R.S. § 15-105. The K-12 Education BRB continues to suspend new funding for the program, but allow current participants to continue to receive scholarships to the extent permitted by existing fund balances.

K-3 Reading

The budget includes \$40,000,000 and 2 FTE Positions from the General Fund in FY 2013 for a new K-3 Reading program. These amounts fund the following adjustments:

New Program

The budget includes an increase of \$40,000,000 and 2 FTE Positions from the General Fund in FY 2013 for a new K-3 reading program. The K-12 Education BRB requires the State Board of Education, in collaboration with the department, to establish a program to improve the reading proficiency of pupils in Grades K-3. It also establishes a new K-3 Reading "Group B" weight in A.R.S. § 15-943 to provide formula funding for the program. The General Appropriation Act appropriates \$40,000,000 and 2 FTE Positions from the General Fund to a new Special Line Item in FY 2013 to fund the new weight and program. It stipulates that the State Board of Education may use up to \$1,500,000 of the appropriated amount on technical assistance and state level program administration.

A.R.S. § 15-211, as added by the K-12 Education BRB, requires school districts and charter schools to submit to the State Board of Education by October 1, 2012 a plan for improving the reading proficiency of their K-3 pupils. The plan shall include baseline data and a budget for spending monies from both the current K-3 weight and the new K-3 Reading weight established in A.R.S. § 15-943. A.R.S. § 15-211 also stipulates that each school district and charter school that is assigned a letter grade of "C," "D," or "F" pursuant to A.R.S. § 15-241, Subsection H, or that has more than 10% of its 3rd Grade pupils reading "far below" the 3rd Grade level on the AIMS Reading test shall receive monies from the new K-3 Reading "Group B" weight only after the State Board of Education has approved its K-3 Reading program plan. Beginning in FY 2014, A.R.S. § 15-211 requires each school district and charter school to submit to the State Board of Education by October 1 an updated K-3 Reading program plan that includes data on program expenditures and results.

Additional State Aid

The budget includes \$303,188,200 from the General Fund in FY 2013 for Additional State Aid (ASA). This amount funds the following adjustments:

Base Adjustment

The budget includes a decrease of \$(13,382,100) from the General Fund in FY 2013 in order to adjust the program's base budget to align with actual reported costs for FY 2012. The program is projected to be overfunded in FY 2012 due to higher than assumed savings for statutory changes that limit the Homeowner's Rebate to QTR funding only starting in FY 2012 and other technical factors.

1% Cap

The budget includes an increase of \$2,045,300 from the General Fund in FY 2013 for projected changes in “1% Cap” costs. This pertains to 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. State costs for funding homeowners’ primary property taxes above the 1% cap are expected to increase by \$2,045,300 in FY 2013 to a total of \$8,863,000 under current JLBC Staff estimates due to a rising QTR (see Table 4) and declining property values.

New Restrictions

The budget includes a decrease of \$(39,000,000) from the General Fund in FY 2013 for new restrictions on Homeowner’s Rebate funding that were scheduled to take effect in FY 2013 pursuant to Laws 2011, 2nd Special Session, Chapter 1. Chapter 1 limited the Homeowners’ Rebate to primary residences only and required all homeowners to submit an affidavit that a home is their primary residence. These changes were estimated to reduce program costs by approximately \$(39,000,000) in FY 2013. Laws 2012, Chapter 350, however, replaces the affidavit process from Chapter 1 with an expanded review of only those properties considered most likely to be misclassified. This includes properties where the owner 1) has a mailing address outside the county where home is located, 2) has a mailing address different than the home’s location, 3) has the same mailing address for multiple homes, or 4) appears to be a business entity. The budget assumes that Chapter 350 will result in the same \$(39,000,000) decrease in Homeowner’s Rebate costs in FY 2013 that was assumed to occur under Chapter 1.

Reimburse Counties

The budget includes an increase of \$2,000,000 from the General Fund in FY 2013 for county reimbursements associated with Laws 2011, 2nd Special Session, Chapter 1. That law requires the state to reimburse in FY 2013 the costs incurred by county assessors in FY 2012 in reclassifying residential property as Class 4 if it is not the owner’s primary residence, as required by that Act. At the time of enactment, those costs were estimated at \$2,000,000. Laws 2011, 2nd Special Session, Chapter 1 required the Department of Revenue to prescribe record keeping and reporting requirements for counties for this issue in order to establish required reimbursement amounts. The final cost of county reimbursements for this issue, if any, is unknown at the time of publication.

Special Education Fund

The budget includes \$33,242,100 and 1 FTE Position from the General Fund in FY 2013 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2012.

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) programs for the developmentally disabled 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.

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2013 for Other State Aid to Districts. This amount is unchanged from FY 2012.

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.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$10,218,400 and 2 FTE Positions in FY 2013 for Accountability and Achievement Testing. These amounts consist of:

General Fund	3,218,400
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a increase of \$100 from the General Fund in FY 2013 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.

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

Arizona Structured English Immersion Fund

The budget includes \$8,791,400 from the General Fund in FY 2013 for the Arizona Structured English Immersion Fund. This amount funds the following adjustments:

Reverse One-Time Fund Shift

The budget includes an increase of \$4,000,000 from the General Fund in FY 2013 to reverse a one-time fund shift that occurred during FY 2012. In October 2012 the department shifted \$4,000,000 of the Arizona Structured English Immersion Fund appropriation for FY 2012 to the English Learner Administration program in order to help fund replacement of the English language proficiency (“AzELLA”) test for English Learners. The FY 2013 budget reverses that fund shift, but includes a General Appropriation Act footnote authorizing the department to use a portion of the program’s FY 2013 appropriation for AzELLA replacement. The department indicates that it will cost a total of \$9,500,000 over 2 years to replace the AzELLA test.

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.

Education Learning and Accountability System

The budget includes \$6,200,000 for the Education Learning and Accountability System (ELAS) in FY 2013. This amount consists of:

General Fund	5,000,000
Education Learning and Accountability Fund	1,200,000

These amounts are unchanged from FY 2012. For FY 2013, however, they are moved into a separate Education Learning and Accountability System Special Line Item from other areas of the agency budget. (For FY 2012, the \$5,000,000 General Fund amount was included in the department’s Basic State Aid appropriation and the \$1,200,000 Education Learning and Accountability Fund amount was included in the department’s operating budget.)

The \$1,200,000 appropriation from the Education Learning and Accountability Fund for FY 2013 is from continuation of a \$6 per Full Time Student Equivalent (FTSE) fee that the K-12 Education BRB requires community colleges and universities to transfer into the fund for FY 2013. The K-12 Education BRB also amends the law establishing the Education Learning and Accountability Fund (A.R.S. § 15-249) to clarify that the fund is subject to appropriation other than General Fund monies deposited into the fund.

The ELAS is intended 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.

English Learner Administration

The budget includes \$3,967,700 and 19 FTE Positions from the General Fund in FY 2013 for English Learner Programs. These amounts fund the following adjustments:

Reverse One-Time Fund Shift

The budget includes a decrease of \$(4,000,000) from the General Fund in FY 2013 to reverse a one-time fund shift that occurred during FY 2012. (*Please see Arizona Structured English Immersion Fund special line item narrative for more information.*)

Statewide Adjustments

The budget includes an increase of \$1,200 from the General Fund in FY 2013 for statewide adjustments.

The English Learner Administration 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 publication. (*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.

Innovative Education Program Grants

The budget includes \$3,000,000 from the General Fund in FY 2013 for Innovative Education Program Grants. This amount funds the following adjustments:

New Program

The budget includes an increase of \$3,000,000 from the General Fund in FY 2013 to provide one-time funding for innovative educational programs in public schools. A footnote in the General Appropriation Act requires the State Board of Education to award program funding on a competitive grant basis. It also limits awards to innovative education programs with a proven track record of success in improving student achievement and on related technology, instructional delivery and materials. Grantees are required to match their state grant with an equal or greater amount of private sector funding and are required to report program results by October 1, 2013.

School Safety Program

The budget includes no funding in FY 2013 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 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, but some carry forward General Fund monies were spent by the program in FY 2011.

State Block Grant for Vocational Education

The budget includes \$11,494,500 and 28 FTE Positions from the General Fund in FY 2013 for the State Block Grant for Vocational Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a increase of \$1,800 from the General Fund in FY 2013 for statewide adjustments.

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 \$25,000,000 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.

Teacher Certification

The budget includes \$1,787,700 and 23 FTE Positions from the Teacher Certification Fund in FY 2013 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes a decrease of \$(3,000) from the General Fund in FY 2013 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 \$1,583,800 and 10 FTE Positions in FY 2013 for the State Board of Education. These amounts consist of:

General Fund	1,213,600
Teacher Certification Fund	370,200

These amounts fund the following adjustments:

Certification Investigations

The budget includes an increase of \$686,600 and 2 FTE Positions from the General Fund in FY 2013 for investigations of alleged immoral or unprofessional conduct against certificated school personnel. The increase includes \$500,000 in one-time funding to finalize development of a related database.

Statewide Adjustments

The budget includes an increase of \$1,700 in FY 2013 for statewide adjustments. This amount consists of:

General Fund	200
Teacher Certification Fund	1,500

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.

Additional Legislation

School Finance Revisions

Laws 2012, Chapter 357 repeals a provision in Laws 2010, Chapter 318 that otherwise would have required ADM to be counted on 4 specific days rather than over the first 100 days of the school year starting in FY 2013. It also limits ADE audits to 3 years after an audit begins, gives ADE 3 years to correct budget errors (versus 1 year currently), authorizes increased transportation funding if a school district has a 200 day calendar (which is rare), and permits a JTED student to continue to count as 1.75 ADM for FY 2013 only if they are enrolled in JTED courses taught in a facility leased and operated by a JTED.

Empowerment Scholarships Accounts

Laws 2012, Chapter 360 expands the Empowerment Scholarship Account program authorized in A.R.S. § 15-2401 to include 1) students attending a school district that has been assigned a letter grade of "D" or "F" pursuant to A.R.S. § 15-241, 2) a child of a parent who is a member of

the United States armed forces and who is on active duty, 3) a child who is a ward of the juvenile court and who is residing with a prospective permanent placement, and 4) a child who was a ward of the juvenile court and who has been adopted or gained permanent guardianship. The program establishes for each eligible student an Empowerment Scholarship Account (ESA) that the student can use to attend private school or fund other educational expenses, such as textbooks and tutoring. ESAs are funded with a portion of the Basic State Aid monies that a school district or charter school otherwise would have received for the student if they had remained in public school. Prior to Chapter 360 only students with disabilities were eligible for ESAs. Approximately 140 students received ESA funding during FY 2012. (See the "Operating Budget" section above for additional information.)

School Tuition Organizations

Laws 2012, Chapter 4 establishes a new individual income tax credit of up to \$500 per single filer and \$1,000 for married couples filing jointly for contributions to a School Tuition Organization (STO). The new credit is allowed only if the filer already has claimed the maximum credit allowed under the existing STO Tax Credit program for individuals authorized by A.R.S. § 43-1089, which also is \$500 per single filer and \$1,000 per married couple filing jointly. Scholarship monies generated by the new credit would be available only to students who either 1) attended public school full-time for at least 90 days in the prior year and transferred to private school, 2) are the dependent of a member of the armed forces, 3) are entering Kindergarten, or 4) received a STO scholarship (individual or corporate) in the prior year under the first 3 criteria.

Other Issues

Reduce Vacant FTE Positions

The FY 2013 budget reduced FTE ceilings for large agencies with a significant number of unfunded, unfilled positions. Although there were variations, the general policy was to reduce the vacancy factor to 10% for agencies with more than 100 FTE Positions. The budget for the Department of Education includes a reduction of (21.1) General Fund and (4) Other Fund FTE Positions in FY 2013 for this policy, incorporated into the figures above.

Attorney General Charge

Laws 2012, Chapter 302, the FY 2013 Criminal Justice Budget Reconciliation Bill (BRB), revises the mechanism for agencies to pay their Attorney General prorata charges. Prior to FY 2013, agencies paid a percent of their personal services to the Attorney General as part of a statewide allocation of that department's expenses. This prorata charge was separate from any funding arrangement contained in an agency's intergovernmental agreement with the Attorney General.

The Criminal Justice BRB eliminated the prorata personal services charge. An agency's General Fund appropriation will no longer be charged for Attorney General Services. The prorata Non-General Fund charge has been converted into a flat dollar amount as annually specified by the General Appropriations Act. Section 134 of the General Appropriations Act specifies a statewide FY 2013 Non-General Fund charge of \$1,906,400 for Attorney General services. The Department of Education's share of this Non-General Fund charge will be \$132,000. Agencies will pay this charge from their appropriated and non-appropriated non-General Fund sources; the Criminal Justice BRB requires agencies to report to JLBC by September 1 annually the specific funds used.