

Department of Education

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	192.5	171.4	175.9 ^{1/}
Personal Services	4,480,300	4,576,100	4,885,500
Employee Related Expenditures	1,697,000	1,698,600	1,789,900
Professional and Outside Services	508,800	345,000	345,000
Travel - In State	29,100	24,300	28,300
Travel - Out of State	25,400	22,200	22,200
Other Operating Expenditures	1,683,700	1,386,000	1,470,400
Equipment	143,500	57,800	57,800
OPERATING SUBTOTAL	8,567,800	8,110,000	8,599,100^{2/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,045,827,600	3,143,605,000	3,206,155,100 ^{3/-7/}
K-3 Reading	0	40,005,700	40,007,600 ^{8/}
Additional State Aid	305,775,400	303,188,200	339,269,300
Special Education Fund	33,242,100	33,242,100	33,242,100
Other State Aid to Districts	518,000	983,900	983,900
Non-Formula Programs			
Accountability and Achievement Testing	8,668,200	10,222,300	10,223,600 ^{9/}
Adult Education	0	0	4,500,000
Arizona Structured English Immersion Fund	4,791,400	8,791,400	8,791,400
Education Learning and Accountability System	1,200,000	6,223,600	0
English Learner Administration	8,898,900	4,004,500	4,016,200 ^{10/}
Innovative Education Program Grants	0	3,000,000	0
Performance Incentive Fund Deposit	0	0	2,400,000 ^{11/}
School Safety Program	0	0	3,646,400 ^{12/}
State Block Grant - Vocational Education	11,492,800	11,556,000	11,575,400
Teacher Certification	1,662,100	1,822,100	1,841,900
State Board of Education			
State Board of Education	861,100	1,607,200	1,614,400 ^{13/}
AGENCY TOTAL	3,431,505,400	3,576,362,000^{14/}	3,676,866,400^{15/-18/}
FUND SOURCES			
General Fund	3,374,706,200	3,519,126,100	3,620,831,200
Other Appropriated Funds			
Department of Education Empowerment Scholarship Account Fund	0	200,000	200,000
Education Learning and Accountability Fund	1,200,000	1,223,600	0
Permanent State School Fund	46,475,500	46,475,500	46,475,500
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
Teacher Certification Fund	2,123,700	2,336,800	2,359,700
SUBTOTAL - Other Appropriated Funds	56,799,200	57,235,900	56,035,200
SUBTOTAL - Appropriated Funds	3,431,505,400	3,576,362,000	3,676,866,400
Other Non-Appropriated Funds			
Other Non-Appropriated Funds	444,356,400	485,181,500	557,141,000
Federal Funds	1,165,736,300	1,074,084,800	1,074,084,800
TOTAL - ALL SOURCES	5,041,598,100	5,135,628,300	5,308,092,200

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2014 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.

Summary

ADE's FY 2014 General Fund budget increases by \$101,705,100 or 2.9%. The budget includes:

- An increase of \$66,535,500 for 0.7% Average Daily Membership (ADM) growth plus special education growth in FY 2014.
- A decrease of \$(43,909,500) for lower than projected prior year enrollment growth.
- An increase of \$90,372,600 for 1.8% inflator.
- An increase of \$11,766,500 for property tax and Homeowner's Rebate changes.
- A decrease of \$(5,000,000) for information technology funding shifted to the Arizona Department of Administration (ADOA).
- An increase of \$4,500,000 for Adult Education.
- An increase of \$3,646,400 for School Safety.
- An increase of \$2,400,000 for Performance Funding with the intent to fund a \$35,000,000 program in FY 2015.
- A decrease of \$(7,089,900) for third year of 5-year Career Ladder phase out.

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- 1/ Includes 56 GF and 29 OF FTE Positions funded from Special Line Items in FY 2014.
- 2/ The operating lump sum appropriation includes \$683,900 and 8.5 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services. (General Appropriation Act footnote)
- 3/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2012, Chapter 294, as amended by Laws 2013 1st Special Session, Chapter 1. Laws 2013, 1st Special Session, Chapter 1 also appropriates \$930,727,700 in FY 2015 to reflect the deferral of FY 2014 payments.
- 4/ 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 2014. (General Appropriation Act footnote)
- 5/ The appropriated amount for Basic State Aid includes an increase of \$82,000,000 that is available for increased operating costs of school districts and charter schools. (General Appropriation Act footnote)
- 6/ 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)
- 7/ 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)
- 8/ 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)
- 9/ 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)
- 10/ 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)
- 11/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.
- 12/ At least twenty-five per cent of the appropriated amount shall be spent on security hardware. (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/ In addition to these amounts, the FY 2013 General Appropriation Act included a one-time FY 2013 adjustment of \$(118,600) for a state employee health insurance premium holiday. (Please see the FY 2013 General Fund Adjustments section.)
- 15/ 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)
- 16/ 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 the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)
- 17/ For FY 2014, the State Board of Education, in collaboration with the Department of Education and the Department of Administration, shall report quarterly on or before 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)
- 18/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

- A decrease of \$(3,000,000) to eliminate innovative education grants.
- An increase of \$3,383,500 for other adjustments.
- A decrease of \$(21,900,000) to eliminate a one-time rollover payoff.

Operating Budget

The budget includes \$8,599,100 and 90.9 FTE Positions in FY 2014 for the operating budget. These amounts consist of:

	FY 2014
General Fund	\$8,261,000
Department of Education Empowerment	
Scholarship Account Fund	200,000
Teacher Certification Fund	138,100

These amounts fund the following adjustments:

ADM Auditors

The budget includes an increase of \$392,800 and 4.5 FTE Positions from the General Fund in FY 2014 for more Average Daily Membership (ADM) auditors. (See related discussion under Basic State Aid for more information.)

Statewide Adjustments

The budget includes an increase of \$96,300 in FY 2014 for statewide adjustments.

This amount consists of:

General Fund	95,400
Teacher Certification Fund	900

(Please see Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes 3,206,155,100 in FY 2014 for Basic State Aid. This amount consists of:

General Fund	3,159,679,600
Permanent State School Fund	46,475,500

The \$3,206,155,100 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 2014 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 2014, as they also are non-appropriated. In addition, it excludes \$40,000,000 continued in the budget for costs of the K-3 Reading weight established by Laws 2012, Chapter 300, as those monies are appropriated to a separate special line item (see narrative for “K-3 Reading” Special Line Item below).

The \$3,206,155,100 appropriated total includes a net General Fund increase of \$62,550,100 and no change from the Permanent State School Fund for FY 2014. These amounts fund the following adjustments:

Table 1

FY 2014 Basic State Aid Formula Summary

General Fund	
FY 2013 Appropriation ^{1/}	\$3,097,129,500
Base Adjustment - ADM	(43,909,500)
Base Adjustment - Rollover	(21,900,000)
Enrollment Growth @ 1.2%	66,535,500
Property Taxes - New Construction	(41,335,900)
Property Taxes - Existing Property	13,721,300
1.8% Inflation	90,372,600
Career Ladder Phase Out	(7,089,900)
Homeowner's Rebate Statutory Changes	4,300,000
JTED 91% Factor - Exempt Small Districts	1,237,800
JTED QTR Offset	1,011,000
ADM Auditor Shift	(392,800)
FY 2014 budget	<u>3,159,679,600</u>
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 2013 Base	2,323,373,400
Property Taxes - New Construction	41,335,900
Property Taxes - Existing Property	(13,721,300)
Property Taxes - Homeowner's Rebate	(4,300,000)
FY 2014 Estimated ^{3/}	<u>2,346,688,000</u>
Grand Total (all sources) ^{4/}	\$5,679,123,600

^{1/} Includes FY 2013 supplemental of \$21,900,000 to exempt school districts with less than 600 students from the FY 2013 K-12 rollover.

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

^{3/} An estimated \$339,269,300 of this total will be funded by the state through the Homeowner's Rebate.

^{4/} Statutory formula cost would be approximately \$259,000,000 higher without the Soft Capital, CORL, charter school Additional Assistance and JTED reductions that are continued in the budget on a session law basis.

Base Adjustment - ADM Growth

The budget includes a decrease of \$(43,909,500) from the General Fund in FY 2014 in order to adjust the program's base budget for a projected FY 2013 surplus due to lower than projected prior year costs for enrollment growth. This is primarily due to the lagged impact of an unexpected (1.2)% decline in statewide ADM for FY 2011 under reported ADE payment data (see Table 2). This decline resulted in a larger than budgeted surplus occurring in FY 2012 than was assumed for base adjustment purposes in the FY 2013 budget (which was enacted before FY 2012 was completed). (Basic State Aid funding for most school districts in FY 2012 was based on their ADM counts from FY 2011, since non-growing school districts are funded based on their prior year counts.) As a result, starting point costs for Basic State Aid for FY 2013 were lower than expected, resulting in a currently projected Basic State Aid surplus of \$43,909,500 for FY 2013 (excluding

one-time factors). The FY 2014 budget therefore includes a \$(43,909,500) General Fund decrease in order to bring the program’s base budget into alignment with currently projected prior year costs.

Base Adjustment - Rollover

The budget includes a decrease of \$(21,900,000) from the General Fund in FY 2014 in order to eliminate one-time monies appropriated in FY 2013 for a K-12 rollover payoff for school districts with less than 600 students. (See the “Rollover” policy issue below for additional information.)

Enrollment Growth

The budget includes an increase of \$66,535,500 from the General Fund in FY 2014 for enrollment growth. This assumes that total K-12 formula costs will increase by approximately 1.2% in FY 2014 due to 0.7% ADM growth for K-12 students as a whole (see Table 2) and 5.0% ADM growth for students in special education (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 public school population.

Fiscal Year	Districts	Charters	Total	Change	% Change
2008	947,396	93,851	1,041,247	15,542	1.5%
2009	941,139	101,145	1,042,284	1,037	0.1%
2010	935,845	110,821	1,046,666	4,382	0.4%
2011	914,078	120,173	1,034,251	(12,415)	(1.2)%
2012	908,395	131,748	1,040,143	5,892	0.6%
2013 est	906,160	145,001	1,051,161	11,018	1.1%
2014 est	902,202	156,467	1,058,669	7,508	0.7%

^{1/} Actuals for FY 2008 through FY 2012 are from ADE payment data.

Fiscal Year	Districts	Charters	Total	Change	% Change
2008	14,383	498	14,881	930	6.7%
2009	15,205	588	15,793	912	6.1%
2010	15,480	734	16,214	421	2.7%
2011	16,293	928	17,221	1,007	6.2%
2012	16,967	1,042	18,009	788	4.6%
2013 est	17,816	1,094	18,910	901	5.0%
2014 est	18,707	1,149	19,856	946	5.0%

^{1/} Actuals for FY 2008 through FY 2012 are from ADE payment data. Excludes “Group B” category that only receives funding weight of 0.003 (100,279 additional students for FY 2012).

The budgeted amount for enrollment growth also assumes that most K-12 enrollment growth for FY 2014 will continue to be in charter schools. This increases the average per pupil cost of enrollment growth because charter schools typically receive about \$1,000 more per pupil under the Basic State Aid formula than non-charter pupils. Charter schools, however, do not receive School Facilities Board funding and typically do not receive K-12 bond and override funding.

On a related note, the budget does not provide specific monies to fund the higher per pupil formula cost of district schools that will be converted into charter schools for FY 2014. At least 60 “charter conversions” are planned for FY 2014. (See “Charter Conversions” narrative below for additional information.)

Property Taxes from New Construction

The budget includes a decrease of \$(41,335,900) from the General Fund in FY 2014 due to a projected 1.83% increase in statewide Net Assessed Value (NAV) from new construction in FY 2014. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$41,335,900 in FY 2014. It also will decrease state costs by \$(41,335,900), since QTR and SETR revenues offset state formula costs on a dollar for dollar basis.

Property Taxes from Existing Property

The budget includes an increase of \$13,721,300 from the General Fund in FY 2014 due to a projected (8.47)% decrease in statewide Net Assessed Value (NAV) from existing property in FY 2014. This will decrease local property tax revenues from the K-12 QTR and SETR by an estimated \$(13,721,300) in FY 2014. It also will increase state costs by \$13,721,300, since (as noted above) QTR and SETR revenues offset state formula costs on a dollar for dollar basis. The projected (8.47)% NAV decline for existing property plus projected 1.83% NAV increase for new construction would result in a net (6.64)% decrease in statewide NAV for FY 2014.

The projected (8.47)% NAV decline for existing property typically would not affect net QTR or SETR collections 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. For FY 2014, however, the projected (8.47)% NAV decline will be only partially offset by higher TNT tax rates because those rates now will have hit the maximum levels allowed under A.R.S. § 41-1276 (the TNT law, as amended by voters through passage of Proposition 301 in November 2000). As a result, the QTR will increase to \$4.25 (from \$3.92 in FY 2013) and the SETR will increase to \$0.51 (from \$0.47 in FY 2013) in FY 2014 (see Table 4).

Tax Rate	FY 2013	FY 2014
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$1.9585	\$2.1265
• Unified districts and elementary districts not located within a high school district	\$3.9170	\$4.2530
• State Equalization Tax Rate (SETR)	\$0.4717	\$0.5123

On a related note, Arizona voters approved Proposition 117 in November 2012, which will consolidate the primary and secondary tax bases into a single tax base for purposes

of levying taxes and limit annual property value increases to 5% starting in FY 2016. The proposition will not affect K-12 QTR and SETR revenues from existing property, since they already are held constant from year to year by TNT (except in FY 2014, as described above, due to a presumed one-time exception). The Proposition also should not affect school district override revenues, since they are based on a district's Revenue Control Limit rather than the size of its tax base. Proposition 117, however, could affect K-12 bonding, since caps on public school bonding are based on the size of a district's tax base. (*See the School Facilities Board narrative for additional information on K-12 Capital Bonding.*) Proposition 117 will slow tax base growth in the future for any year that otherwise would experience more than 5% growth in the value of existing properties.

1.8% Inflation Adjustment

The budget includes an increase of \$90,372,600 from the General Fund in FY 2014 for a 1.8% inflation increase in the per pupil "base level" prescribed in A.R.S. § 15-901B2, 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. These inflation adjustments are all included in the K-12 Education Budget Reconciliation Bill (BRB) (Laws 2013, 1st Special Session, Chapter 3) and will result in a "base level" of \$3,326.54 per pupil for FY 2014 versus \$3,267.72 for FY 2013.

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 2014 adjustment is 1.8%, which equals the currently projected GDP price deflator for calendar year 2012. 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 through FY 2013, only the latter 2 items were increased for inflation.

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." The state Court of Appeals reversed that decision in January 2013, resulting in a further appeal of the case to the state Supreme Court. The latter agreed on May 29, 2013 to review the Court of

Appeals decision and has scheduled oral arguments for July 23, 2013.

Career Ladder Phase Out

The budget includes a decrease of \$(7,089,900) from the General Fund in FY 2014 for the third 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 \$(7,089,900) decrease will provide Career Ladder districts with an estimated \$28,267,900 in total program funding for FY 2014. That total includes an estimated \$5,396,300 in state funding and \$22,871,600 from local property taxes. A total of 28 school districts participate in the Career Ladder program.

Property Taxes - Statutory Changes

The budget includes an increase of \$4,300,000 from the General Fund in FY 2014 to offset an anticipated reduction in K-12 QTR and SETR tax collections for FY 2014 due to tax law changes pertaining to commercial property. Laws 2011, 2nd Special Session, Chapter 1 phases down the assessment ratio on commercial property from 20% to 18% over 4 years beginning in FY 2014, which is projected to reduce K-12 QTR and SETR property tax collections by \$(3,400,000) in FY 2014. In addition, Laws 2012, Chapter 343 amends the calculation of the index used to determine the annual business personal property exemption amount starting in FY 2014.

Under Chapter 343 the index will be based on the percentage increase in the Employment Cost Index in the 2 most recent years, rather than only the most recent year. Additionally the index will be recalculated as if this provision had been continuously in effect since 1997. This change is expected to raise the exemption amount from \$68,079 to an estimated \$125,700 and reduce QTR and SETR revenues by an additional \$(900,000) in FY 2014.

Chapter 1 and Chapter 343 therefore are expected to reduce QTR and SETR revenues by a combined total of \$(4,300,000) in FY 2014. This will increase Basic State Aid costs by an estimated \$4,300,000 in FY 2014, since QTR and SETR revenues offset state K-12 formula costs on a dollar for dollar basis.

JTED 91% Factor

The budget includes an increase of \$1,237,800 from the General Fund in FY 2014 in order to fund Joint Technical Education Districts (JTEDs) with less than 2,000 ADM at 100% of the fully funded formula rate for FY 2014. The FY 2013 budget funded state aid for all JTEDs at 91% of the full formula amount for FY 2013 and the K-12 Education BRB continues that policy in FY 2014 for JTEDs with more than 2,000 students. It exempts JTEDs with less than 2,000 students from the 91% funding factor,

however, which will increase state aid for JTEDs by an estimated \$1,237,800 statewide in FY 2014. The exemption will apply to 10 of the 13 existing JTEDs. It will not apply to the 3 large JTEDs located in Maricopa and Pima Counties, which are the East Valley Institute of Technology, the Western Maricopa Education Center (West-MEC) and the Pima County JTED. The 91% factor is expected to continue to reduce “large” JTED state aid by an estimated \$4,162,000 collectively in FY 2014.

On a related note, Laws 2013, Chapter 229 establishes definitions in statute for a JTED “centralized campus,” “leased centralized campus” and “satellite campus.” It authorizes a “leased centralized campus” to receive up to 0.75 ADM per student (the same level currently authorized for a “centralized campus” only) if it meets certain conditions, including (through 2016) Joint Committee for Capital Review (JCCR) approval of the lease unless it was executed or reviewed before December 31, 2012. Chapter 229 also authorizes JTEDs to include accommodation school students in their ADM counts. The enacted budget does not include specific funding for higher JTED costs under the bill. The bill will likely increase General Fund costs for JTEDs by encouraging the formation of additional leased JTED sites.

JTED QTR Offset

The budget includes an increase of \$1,011,000 from the General Fund in FY 2014 to offset a reduction in QTR revenues that JTEDs otherwise would experience in FY 2014 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 \$(1,011,000) in FY 2014 due to an anticipated 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 and FY 2013 budgets included funding for this issue. The FY 2014 budget continues the funding policy from the prior 2 years.

ADM Audits

The budget includes a decrease of \$(392,800) from the General Fund in FY 2014 for savings associated with increased ADM audits. The department’s operating budget for FY 2014 includes a corresponding \$392,800 increase from the state General Fund in FY 2014 for an additional 4.5 FTE positions for ADM auditing. The additional auditors are expected to generate enough Basic State Aid savings to offset their cost through corrections to reported ADM counts. The Basic State Aid budget for FY 2014 therefore includes a corresponding \$(392,800) General Fund reduction. (*See “ADM Auditors” policy issue in the agency operating budget narrative above for a related discussion.*)

Endowment Earnings

The budget includes no change from the Permanent State School Fund in FY 2014 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 2014. This leaves the amount of land trust monies available to fund Basic State Aid in FY 2014 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. Even without the enactment of Proposition 118 (*see below*), endowment earnings would be expected to exceed this level for FY 2014.

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.

Proposition 118 from the November 2012 General Election revises the formula for determining distributions of land trust earnings from the State Treasurer for FY 2013 through FY 2021 by making them equal to a flat 2.5% of the average 5-year monthly market value of a beneficiary’s permanent land trust proceeds fund. Prior to this change, State Treasurer distributions were based on both average market values and average rates of investment return for the prior 5 years. All endowment earnings above \$72,263,000 go to the Classroom Site Fund.

Under most economic scenarios, the new formula is expected to increase annual distributions of land trust earnings. After distributing the first \$72,263,000 in combined State Treasurer and Land Department land trust earnings to Basic State Aid and the School Facilities Board, the remainder goes to the K-12 Classroom Site Fund established in A.R.S. § 15-977. In FY 2013, the Classroom Site Fund allocation assumed that the State Treasurer would distribute \$30,400,000 in land trust earnings for FY 2013. Under Proposition 118, the revised estimate is approximately \$70,000,000. Since Classroom Site Fund per capita distributions for FY 2013 had already been determined when Proposition 118 was enacted into law, the additional earnings from FY 2013 will be available to districts and charters in FY 2014.

Rollover

The budget includes no change from the General Fund in FY 2014 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of

current year (now FY 2014) state aid payments until the following fiscal year (now FY 2015).

The FY 2013 budget originally deferred \$952,626,700 in state aid payments to FY 2014, but Laws 2013, 1st Special Session, Chapter 1 reduced the deferral to \$930,727,700 by appropriating \$21,900,000 in supplemental funding to ADE in FY 2013 to exempt school districts with less than 600 students from the FY 2013 K-12 rollover. Chapter 1 continues to exempt small districts from the K-12 rollover in FY 2014, which will continue it at the \$930,727,700 revised level from FY 2013.

As a result of the continuing rollover, the 12 monthly payments that “large” school districts receive in FY 2014 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 2012, Chapter 294 as amended by Laws 2013, 1st Special Session, Chapter 1, advance appropriated \$930,727,700 from the General Fund in FY 2014 in order to fund the \$930,727,700 deferred obligation from FY 2013. Chapter 1 also advance appropriates \$930,727,700 from the General Fund in FY 2015 in order to fund the deferred FY 2014 obligation.

As a result of existing rollovers, the budget continues to include a total deferred obligation of \$930,727,700 for FY 2014. That amount includes \$272,627,700 for the original FY 2008 rollover, \$330,000,000 for the additional FY 2009 rollover, \$350,000,000 for the additional FY 2010 rollover and \$(21,900,000) to exempt districts with less than 600 students.

The K-12 Education BRB continues to require school districts to include in the FY 2014 revenue estimates that they use for computing their FY 2014 tax rates the rollover monies that they will receive for FY 2014 in July 2014.

Formula Suspensions

The budget includes no change from the General Fund in FY 2014 for Basic State Aid formula suspensions. This continues to suspend \$238,985,500 in school district state aid and \$15,656,000 in charter school state aid for FY 2014 (both amounts unchanged from FY 2013).

The K-12 Education BRB, however, applies the entire \$238,985,500 school district state aid suspension to a new formula component called “District Additional Assistance” (DAA), which combines formerly separate Capital Outlay Revenue Limit (CORL) and Soft Capital funding. The FY 2013 budget instead separately suspended \$80,864,800 in CORL funding and \$158,120,700 in Soft Capital funding for an equivalent combined suspension of \$238,985,500. Chapter 3 combined CORL and Soft Capital by summing the previously-separate per pupil amounts authorized in statute for CORL and Soft Capital funding for districts of various sizes into combined totals and by making related conforming statutory changes.

School districts will receive an estimated \$184,691,600 in DAA funding in FY 2014 under current projections. Without the continuing suspension they would receive an estimated \$447,931,900, including an estimated \$24,254,800 self-funded by non-state aid districts. As in prior years, the K-12 Education BRB requires non-state aid districts to reduce their budgets by the amount that their state aid would be reduced under continuing formula suspensions if they did qualify for state aid. (Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes only because of their strong local property tax base.) The K-12 BRB for FY 2014 extends this requirement also to Charter Additional Assistance reductions for non-state aid districts that have district-sponsored charter schools in order to conform with existing practice for DAA reductions.

The K-12 Education BRB also includes provisions to address transition issues related to the elimination of separate CORL and Soft Capital funding. This includes provisions regarding existing fund balances, current CORL overrides and the correction of past overexpenditures.

The K-12 Education BRB also continues to cap total statewide DAA reductions for school districts with less than 1,100 students at \$5,000,000 for FY 2014.

Charter Conversions

The budget includes no change from the General Fund in FY 2014 for Basic State Aid costs related to the conversion of existing district schools into charter schools (“charter conversions”). Charter conversions increase state costs because charter schools typically receive \$1,000 more per pupil (approximately) under the Basic State Aid formula than district schools. Charter schools, however, typically do not receive K-12 bond and override funding.

As of early July 2013, ADE indicated that 60 schools in 20 school districts were expected to convert to charter status for FY 2014. Under preliminary calculations, ADE estimated that these conversions would involve approximately 33,900 ADM and increase Basic State Aid costs by roughly \$3,200,000 in FY 2014 and \$33,900,000 in FY 2015. The projected fiscal impact for FY 2014 is relatively small because only students who are new to a school district (primarily Kindergartners) are eligible for the higher charter school funding level during the first year of conversion pursuant to A.R.S. § 15-185A3a. The FY 2014 budget does not include specific funding for charter conversions for FY 2014.

Most charter schools are sponsored by the State Board for Charter Schools (SBCS), but they also can be sponsored by a school district governing board pursuant to A.R.S. § 15-183C. The main difference between district-sponsored and non-district sponsored charters from a funding perspective is that only district-sponsored charter schools are eligible for K-12 override and general obligation bond funding, whereas only non-district charters are eligible for “small school weight” funding pursuant to A.R.S. § 15-

185A3b. District-sponsored charter schools typically have served fewer than 1,000 ADM pupils statewide in recent years, but that number is expected to exceed 36,200 in FY 2014 (including an estimated 2,334 students already in district sponsored charter schools in FY 2013) due to rapid growth in charter conversions (*see Table 5*).

Table 5
District-Sponsored Charter ADM (unweighted) ^{1/}

<u>Fiscal Year</u>	<u>K-8</u>	<u>High School</u>	<u>Total</u>	<u>Change</u>	<u>% Change</u>
2008	77	490	568	(114)	(16.8)%
2009	86	469	555	(13)	(2.3)%
2010	100	490	589	35	6.3%
2011	315	536	851	262	44.4%
2012	546	524	1,070	219	25.7%
2013 est	1,893	441	2,334	1,264	118%
2014 est	35,793	441	36,234	33,900	1,452%

^{1/} Actuals for FY 2008 through FY 2012 are from ADE payment data. Estimates for FY 2013 are from current ADE payment data. Estimates for FY 2014 are from a preliminary ADE analysis as of late June 2013, which indicate that all known charter conversions for FY 2014 will be for elementary and middle schools only.

Empowerment Scholarship Accounts

The budget includes no change from the General Fund in FY 2014 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. Eligible students can use monies in an ESA 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. As a result, ESAs typically do not increase state costs for Basic State Aid, since participants otherwise generally would be attending public schools. Laws 2013, Chapter 250, however, exempts incoming Kindergartners from the requirement of being former public school students in order to qualify for an ESA starting in FY 2015. As a result, the program will not automatically generate an offsetting Basic State Aid savings in the future for all program participants starting in FY 2015.

The ESA program began in FY 2012 and originally was available only to pupils with disabilities who previously had attended public schools or had received a disabled pupil scholarship under A.R.S. § 43-1505. Laws 2012, Chapter 360, however, expanded it to also 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. Laws 2013, Chapter 250 further expands the program (as noted above) starting in FY 2015 to also include incoming Kindergartners who previously were not eligible because they had not attended public school in the prior year. Prior to Chapter 250, only

Kindergartners who attended public school programs for preschoolers with disabilities the year before they enrolled in Kindergarten were eligible for ESA funding.

As of late June 2013, ADE estimated that the ESA program for FY 2014 would serve 1,000 students and award approximately \$11,500,000 in program funds (*see Table 6*). This would be substantially higher than the levels reported for program for its first 2 years (*see also Table 6*), apparently because of the broader eligibility requirements established for FY 2014 by Laws 2012, Chapter 360.

Table 6
Empowerment Scholarship Account Data ^{1/}

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014 (est)	1,000	\$11,500,000
FY 2015 (est)	5,500	(not available)

^{1/} ADE data and estimates as of June 2013

Table 6 shows that ADE currently anticipates that program enrollment will grow dramatically in FY 2015 to approximately 5,500 students because of the provision in Laws 2013, Chapter 250 that exempts incoming Kindergartners from the requirement of being former public school students in order to qualify for ESA funding starting in FY 2015. The 5,500 student estimate assumes that ESA enrollment in FY 2015 would equal 0.5% of statewide public school enrollment, which is the level at which Chapter 250 caps program enrollment through FY 2019.

Chapter 250 also amends the funding formula for the ESA program in a manner that will provide more funding per pupil, at least for former charter school pupils. Prior to Chapter 250, the ESA per pupil funding for all students equaled 90% of the “Base Support Level” (BSL) funding that the student would receive if still attending public school, which can range from \$3,500 to \$26,000 depending on whether they have a disability. Chapter 250 instead funds 90% of the sum of the BSL and charter school Additional Assistance, at least for former charter school pupils. This will increase their ESA funding by approximately \$1,600 per pupil, which is 90% of the average “Additional Assistance” amounts defined in A.R.S. § 15-185B3 for charter school pupils.

A.R.S. § 15-2402C authorizes the department to retain for administration up to 5% of the BSL funding designated for each student’s ESA account, of which it is required to transfer one-fifth to the State Treasurer for related administration at the State Treasurer’s office. The ADE operating budget includes a \$200,000 appropriation from the Department of Education Empowerment Scholarship Account Fund (A.R.S. § 15-2402D) in FY 2014 for this issue (*see agency operating budget narrative above*). The operating budget for the State Treasurer likewise includes

an appropriation of \$40,000 from the State Treasurer Empowerment Scholarship Account Fund in FY 2014 for ESA program administration (*see related narrative in State Treasurer budget*).

Accommodation School Funding

The budget includes no change from the General Fund in FY 2014 for Basic State Aid costs for accommodation schools. Accommodation schools are public schools that serve students who do not live within the boundaries of a school district, live on a military base, are homeless or attend alternative education programs (A.R.S. § 15-101).

The K-12 Education BRB amends statutory language for computing state aid for accommodation districts in A.R.S. § 15-909 in order to conform it to current practice. In addition, the K-12 Education BRB makes accommodation schools ineligible for School Facilities Board funding (*see School Facilities Board narrative for additional information*).

Laws 2013, Chapter 229 authorizes JTEDs to include accommodation school students in their ADM counts (*see “JTED 91% Factor” narrative above for more information*).

K-3 Reading

The budget includes \$40,007,600 and 2 FTE Positions from the General Fund in FY 2014 for the K-3 Reading program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,900 from the General Fund in FY 2014 for statewide adjustments.

The program is authorized by A.R.S. § 15-211, which 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. Program funding is generated by the K-3 Reading “Group B” weight established in A.R.S. § 15-943. A General Appropriation Act footnote 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 required 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 plans were required to 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. § 15-241H, or that has more than 10% of its third grade pupils reading “far below” the third 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 \$339,269,300 from the General Fund in FY 2014 for Additional State Aid (ASA). This amount funds the following adjustments:

Base Adjustment

The budget includes an increase of \$19,481,100 from the General Fund in FY 2014 to align the program’s base budget with actual reported costs for FY 2013. The Arizona Department of Revenue (DOR) reported in October 2013 that the program would cost \$322,669,300 for FY 2013, which was \$19,481,100 more than the program’s FY 2013 appropriation. The shortfall was primarily due to a lower than budgeted savings from new restrictions on Homeowner’s Rebate funding that took effect in FY 2013. Those restrictions were established by Laws 2011, 2nd Special Session, Chapter 1, as amended by Laws 2012, Chapter 350.

Chapter 1 limited the Homeowner’s Rebate to primary residences only and required all homeowners to submit an affidavit that a home is their primary residence, which was estimated to reduce program costs by \$(39,000,000) in FY 2013. Laws 2012, Chapter 350 replaced the affidavit process 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 the 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 FY 2013 budget assumed that Chapter 350 would result in the same \$(39,000,000) Homeowner’s Rebate savings in FY 2013 assumed under Chapter 1. Actual savings appear to be roughly half of the assumed total, however, as reflected in the \$(19,481,100) funding shortfall reported for the program for FY 2013.

On a related note, the K-12 Education BRB repeals a provision from Laws 2011, 2nd Special Session, Chapter 1, that required the state to reimburse county assessors for costs associated with the now-repealed Homeowner’s Rebate affidavit process.

Increased Rebate Percentage

The budget includes an increase of \$15,600,000 from the General Fund in FY 2014 for costs associated with an increased Homeowner’s Rebate percentage required by Laws 2011, 2nd Special Session, Chapter 1. Chapter 1 requires DOR to adjust the Homeowner’s Rebate percentages for FY 2014 through FY 2017 in order to

offset homeowner tax shifts that otherwise would occur in those years under Chapter 1 due to reduced assessment ratios for commercial property. The Homeowner's Rebate percentage authorized for FY 2013 in A.R.S. § 15-972 was 40%. Chapter 1 requires DOR to increase that percentage for FY 2014 by August 1, 2013. In early July 2013, DOR reported that the rebate percentage for FY 2014 would be 41.825%. The currently estimated cost of the required increase is \$15,600,000.

1% Cap

The budget includes an increase of \$1,000,000 from the General Fund in FY 2014 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 \$1,000,000 in FY 2014 to a total of \$9,863,000 under current JLBC Staff estimates due to a rising QTR (see Table 4) and declining property values.

Background – Additional State Aid is authorized by A.R.S. § 15-972, which requires the state to pay a portion 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 exceeds 1% of the full cash value of their home. This second feature is referred to as the "1% cap" and is required by Article IX, Section 18 of the State Constitution, which limits Class 3 primary property taxes to no more than 1% of a home's full cash value. All Class III properties are eligible for both "homeowner's rebate" and "1% cap" funding.

Special Education Fund

The budget includes \$33,242,100 and 1 FTE Position from the General Fund in FY 2014 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2013.

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 2014 for Other State Aid to Districts. This amount is unchanged from FY 2013.

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 \$10,233,600 and 2 FTE Positions in FY 2014 for Accountability and Achievement Testing. These amounts consist of:

General Fund	3,223,600
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$1,300 from the General Fund in FY 2014 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 7 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	<u>14,243,100</u>
Total	\$68,217,200

The Achievement Testing program will be substantially changed after FY 2014 due to the implementation of new "Common Core" academic standards. (Please see "Other Issues" section for additional information.)

Adult Education

The budget includes \$4,500,000 from the General Fund in FY 2014 for Adult Education. This amount funds the following adjustments:

Restore Program Funding

The budget includes an increase of \$4,500,000 from the General Fund in FY 2014 in order to restore state funding for the program. The program's state funding was discontinued after FY 2010 as part of reductions to the department's non-formula programs. Prior to FY 2010 it received approximately \$4,500,000 in state funding annually. The program also has received approximately \$11,800,000 in federal funding annually in recent years. Its federal funding is subject to "maintenance of effort" (MOE) requirements that stipulate that the state must continue to provide at least 90% of its prior year level of state Adult Education funding each year in order to remain eligible for federal Adult Education funding. Otherwise, federal Adult Education funding is reduced in proportion to the percentage of state reductions. Restoration of state funding for the program for FY 2014 is expected to enable it to continue to meet to meet federal MOE requirements for FY 2014. Program monies are distributed through a competitive grant process. In FY 2013, a total of 25 school districts, community colleges, counties and community based organizations operated Adult Education programs.

Arizona Structured English Immersion Fund

The budget includes \$8,791,400 from the General Fund in FY 2014 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2013. The K-12 Education BRB, however, requires ADE to transfer \$10,000,000 from the Arizona Structured English Immersion Fund to the state General Fund during FY 2014 in order to draw down accumulated balances. In addition, the budget eliminates a one-time General Appropriation Act footnote that in FY 2013 allowed ADE to use a portion of the program's FY 2013 appropriation to fund a new English Language proficiency assessment. ADE had also received a \$4,000,000 transfer from the program in FY 2012 in order to begin replacement of the current "AzELLA" English language proficiency 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 no funding in ADE in FY 2014 for the Education Learning and Accountability System (ELAS). These amounts fund the following adjustments:

Eliminate One-Time Funding

The budget includes a decrease of \$(5,000,000) from the General Fund and \$(1,200,000) from the Education Learning and Accountability Fund (ELAF) in FY 2014 to eliminate one-time funding to ADE for the program. The General Appropriation Act, however, appropriates

\$5,400,000 from the state General Fund and \$1,600,000 from the Education Learning and Accountability Fund (ELAF) to the Arizona Department of Administration (ADOA) in FY 2014 on a one-time basis for continued ELAS development. (*Please see the Department of Administration - Automation Projects Fund section for details regarding this information technology project.*) The FY 2012 and FY 2013 budgets both appropriated \$5,000,000 from the General Fund and \$1,200,000 from ELAF directly to ADE on a one-time basis for ELAS development.

Statewide Adjustments

The budget includes a decrease of \$(23,600) from the General Fund in FY 2014 for statewide adjustments.

The K-12 Education BRB requires Arizona public universities and community colleges to continue to deposit \$6 per Full Time Student Equivalent (FTSE) into ELAF in order to provide continue support for ELAS development, as was required in FY 2012 and FY 2013. This requirement is expected to generate approximately \$1,600,000 in new ELAF funding for FY 2014, which is appropriated to ADOA in FY 2014, as described above. In addition, the General Appropriation Act appropriates for ELAS any remaining balances as of June 30, 2013 from \$6 per FTSE fees collected in prior years.

Background – Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (ELAS), in order to "collect, compile, maintain and report student level data for students attending public educational institutions that provide instruction to pupils in preschool programs, kindergarten programs, grades one through twelve and postsecondary educational programs in this state" (A.R.S. § 15-249A).

Chapter 29 also established a Data Governance Commission (DGC) in ADE (A.R.S. § 15-249.01) to provide oversight on data management issues for public education, and requires the DGC to issue a report annually. The DGC's 2012 Annual Report, released in early December 2012, estimated that ADE will need \$34,500,000 in additional funding for ELAS over the next 2 fiscal years (\$23,100,000 in FY 2014 and \$11,400,000 in FY 2015). It also projected that ADE will need an additional \$35,200,000 in ELAS funding in FY 2016 through FY 2018, for a total estimated 5-year (FY 2014 – FY 2018) ELAS cost of \$69,700,000. The DGC report estimated that ELAS will generate a net benefit over that same 5-year period due to factors such as reduced man-hours spent on data management and corrections, improved data quality, and the elimination of redundant state and local data systems.

The DGC cost estimates include funding for the following items:

- Replace the current Student Accountability and Information System (SAIS) (for ADM and state aid calculations)
- Establish a statewide longitudinal data system (multi-year student and teacher performance data)
- Replace additional agency data systems (such as for managing school lunch and special education data)
- Provide districts and charters with “opt in” data management services for functions such as finance, human resources and transportation, and
- Replace the current “IDEAL” platform (digital teaching resources, including the “FreeThrows” math curriculum).

Laws 2013, Chapter 251 adds the Director of the Department of Administration, or the Director’s designee, to the DGC.

English Learner Administration

The budget includes \$4,016,200 and 19 FTE Positions from the General Fund in FY 2014 for English Learner Programs. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$11,700 from the General Fund in FY 2014 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 continued until March 2013, when a federal judge dismissed the case. Plaintiffs in the case appealed the federal judge’s ruling in April 2013. The timeline for appellate action in the case is unknown. (See *FY 2011 Appropriations Report for additional history on 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. (See *related discussion on replacement of the current AzELLA test for English Learners in narrative for the Arizona Structured English Immersion program.*)

Innovative Education Program Grants

The budget includes no funding in FY 2014 for Innovative Education Program Grants. This amount funds the following adjustments:

Eliminate One-Time Funding

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2014 to eliminate one-time funding

for innovative educational programs in public schools. The FY 2013 budget appropriated \$3,000,000 for the program and required the State Board of Education to award the funding on a competitive grant basis to innovative education programs with a proven track record of success in improving student achievement and on related technology, instructional delivery and materials. Grantees were 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. Program monies were awarded to 4 school districts, plus Teach for America, and the Center for the Future of Arizona. Funded projects dealt with (for example) instruction in Science, Technology, Engineering and Math (STEM) and “Move on When Ready” programs established pursuant to A.R.S. § 15-795.

Performance Incentive Fund Deposit

The budget includes \$2,400,000 from the General Fund in FY 2014 for a new Performance Incentive Fund Deposit Special Line Item. This amount funds the following adjustments:

New Program

The budget includes an increase of \$2,400,000 from the General Fund in FY 2014 for a new performance funding program for public schools. The appropriated amount will be deposited into a new Performance Incentive Fund established by the K-12 Education BRB. Statutory language for the new fund (A.R.S. § 15-917) makes it non-lapsing and requires ADE to distribute monies in the fund to school districts and charter schools starting in FY 2015 based on achievement and improvement on the assigned achievement profile pursuant to A.R.S. § 15-241. The enacted 3-year spending projection assumes that the program will receive \$35,000,000 from the state General Fund in FY 2015 and FY 2016. No monies, however, were advance appropriated for this purpose.

School Safety Program

The budget includes \$3,646,400 from the General Fund in FY 2014 for the School Safety program. This amount funds the following adjustments:

Funding Increase

The budget includes an increase of \$3,646,400 from the General Fund in FY 2014, which provides state General Fund funding for the program for the first time since FY 2010. The program received approximately \$6,700,000 from the state General Fund annually prior to FY 2010, but that funding was reduced in FY 2010 and eliminated in FY 2011.

The K-12 BRB requires \$100,000 of the \$3,646,400 appropriation to be used for a pilot program on school emergency readiness and establishes requirements for the

program. In addition, the General Appropriation Act requires at least 25% of the appropriated amount to be spent on security hardware.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. It is authorized by A.R.S. § 15-154 and is administered by the State Board of Education in conjunction with the School Safety Program Oversight Committee established in A.R.S. § 15-153. The program began in FY 1995 with a General Fund appropriation of \$2,500,000. From FY 2002 through FY 2010 (its years of peak funding) the program received approximately \$14,500,000 annually, including \$6,700,000 from the General Fund and \$7,800,000 from Proposition 301 sales tax monies. From FY 2011 through FY 2013, the program operated solely with \$7,800,000 annually from Proposition 301.

The \$7,800,000 in Proposition 301 funding for the program is allocated annually by the School Safety Program Oversight Committee pursuant to A.R.S. § 15-153C. In FY 2013, a total of 35 sites received funding allocations under the program.

State Block Grant for Vocational Education

The budget includes \$11,575,400 and 28 FTE Positions from the General Fund in FY 2014 for the State Block Grant for Vocational Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$19,400 from the General Fund in FY 2014 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 \$24,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal 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 \$1,841,900 and 23 FTE Positions from the Teacher Certification Fund in FY 2014 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$19,800 from the Teacher Certification Fund in FY 2014 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 \$1,614,400 and 10 FTE Positions in FY 2014 for the State Board of Education. These amounts consist of:

General Fund	1,234,700
Teacher Certification Fund	379,700

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$7,200 in FY 2014 for statewide adjustments. This amount consists of:

General Fund	5,000
Teacher Certification Fund	2,200

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.

The State Board of Education has jurisdiction over programs such as Adult Education (A.R.S. § 15-232) and the School Safety Program (A.R.S. § 15-154). (See narrative above for additional information on these 2 programs.)

Additional Legislation

Outcome-Based Funding Pilot

Laws 2013, Chapter 105 establishes a 4-year pilot program for outcome-based funding for Arizona public schools. The pilot program is intended to simulate how public school funding would work in the state if school districts and charter schools were paid based on student outcomes (such as test scores) rather than hours of instruction. The simulated funding amounts would be up to \$6,500 per pupil for Grades K-8 and \$7,500 per pupil for Grades 9-12, plus an additional \$250 per pupil for students who obtained a 3.0 on a 4.0 point scale in a dual enrollment or concurrent enrollment math or science course. Participating districts, however, would continue to be funded under the existing Basic State Aid formula during the 4-year pilot period. The bill states that the 4-year pilot is intended to begin in FY 2015, but that the SBE may

delay implementation until required assessments are developed to sufficiently measure outcomes.

School Finance

Laws 2013, Chapter 251 makes miscellaneous changes to laws affecting K-12 formula funding to public schools, including the following: 1) allows charter schools to offer programs for preschool disabled pupils and receive Basic State Aid funding for them (currently only authorized for school districts), 2) allows up to 0.75 JTED ADM for a charter school pupil who lives within the boundaries of a JTED member district (currently only allowed for non-charter pupils), 3) authorizes ADE to reduce a school district or charter school's state aid and budget limits if the district or charter did not provide the minimum amount of instructional time required for a school year, 4) requires ADE to publish criteria for a school district or charter school to exit from a letter grade of F, 5) modifies minimum weekly attendance for full-time status in an alternative education program, 6) removes certain reporting requirements for school districts regarding school buses, and 7) redirects "Assistance for Education" funds from public schools to "solution teams" assigned to D and F schools, and 8) allows Red Mesa Unified to correct budget errors over 5 years rather than 2.

Other Issues

Budget Overrides

Current law permits school districts to exceed statutory budget limits through "budget override" elections. This includes "Maintenance and Operation (M&O) overrides" (A.R.S. § 15-481E&F), "Special Program overrides" (A.R.S. § 15-482) and "Capital Overrides" (renamed "District Additional Assistance" overrides starting in FY 2014) (A.R.S. § 15-481L&M).

M&O and Special Program overrides together are capped at 15% of a district's Revenue Control Limit (RCL). ("RCL" essentially equals a district's total funding under the Basic State Aid formula minus its CORL and Soft Capital funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district's RCL.

M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 2013, approximately 115 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 38 had M&O overrides pursuant to A.R.S. § 15-482, and 23 had capital overrides. The total amounts budgeted for overrides for FY 2013 included approximately \$410,000,000 for both types of M&O overrides combined and \$87,000,000 for capital overrides. (*See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.*)

The K-12 Education BRB establishes a new permanent law provision (A.R.S. § 15-249.04) requiring ADE to report by November 30 of each year the amount budgeted for school district budget overrides by district and type of override for the current fiscal year.

Common Core

Arizona is one of 46 states currently working to implement new "Common Core" academic standards developed through a state-led initiative coordinated by the National Governors Association and the Council of Chief State School Officers (CCSSO). The Arizona State Board of Education adopted the Common Core standards for Arizona in 2010. There is no specific state statutory requirement regarding implementation of the Common Core standards.

In December 2012, ADE developed a working document suggesting that it would cost roughly \$131 million over 2 years (FY 2014 and FY 2015) to implement the Common Core standards in Arizona. That 2-year total includes approximately \$6 million for ADE program personnel, \$6 million for online curricula and ADE-provided training; \$5 million for contract training; \$34 million for teacher stipends or release time; and \$80 million for curriculum and textbook purchases.

The estimated \$131 million total does not include funding for student testing under the new standards, which will make Arizona's current AIMS tests obsolete in FY 2015. Nationally, it is envisioned that Common Core testing will be done on-line, rather than by paper and pencil (the current AIMS format). Two state consortia are currently working to develop Common Core tests: 1) the Partnership for Assessment of Readiness for College and Careers (PARCC), and 2) the SMARTER Balanced Assessment Consortium. Arizona is one of 23 member states for PARCC. Both consortia are using federal "Race to the Top" grants to fund test development and plan to make their Common Core tests available to states during the 2014-2015 school year. States will be responsible for costs of administering the tests, once developed.

In order for Common Core tests to be administered on-line to all Arizona public school pupils, every school would need sufficient computers, bandwidth and related infrastructure. The magnitude and cost of technology upgrades needed to equip all Arizona public schools for statewide Common Core testing is currently unknown. (*See "Achievement Testing" narrative for more information.*)

Early Graduation Scholarship Program

The K-12 Education BRB repeals the Early Graduation Scholarship program authorized in A.R.S. § 15-105 (which had been suspended in recent years) and transfers the remaining fund balance for the program to the Commission for Postsecondary Education (*see Commission for Postsecondary Education narrative for more information.*)

Automation Projects Transfer

The budget includes one-time FY 2014 transfers from this agency's funds associated with its proportionate share of costs for replacement of the state's financial accounting system. (*Please see the Automation Projects narrative for more details.*)