

Department of Education

	FY 2012 ACTUAL	FY 2013 ESTIMATE	FY 2014 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	192.5	171.4	171.4
Personal Services	4,480,300	4,407,800	4,407,800
Employee Related Expenditures	1,697,000	1,662,200	1,662,200
Professional and Outside Services	508,800	345,000	345,000
Travel - In State	29,100	24,300	24,300
Travel - Out of State	25,400	22,200	22,200
Other Operating Expenditures	1,683,700	1,386,000	1,386,000
Equipment	143,500	57,800	57,800
OPERATING SUBTOTAL	8,567,800	7,905,300	7,905,300
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,045,827,600	3,121,705,000	3,148,791,200
K-3 Reading	0	40,000,000	40,000,000
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	10,218,400	10,218,400
Arizona Structured English Immersion Fund	4,791,400	8,791,400	8,791,400
Education Learning and Accountability System	1,200,000	6,200,000	0
English Learner Administration	8,898,900	3,967,700	3,967,700
Innovative Education Program Grants	0	3,000,000	0
State Block Grant - Vocational Education	11,492,800	11,494,500	11,494,500
Teacher Certification	1,662,100	1,787,700	1,787,700
State Board of Education			
State Board of Education	861,100	1,583,800	1,583,800
AGENCY TOTAL	3,431,505,400^{1/}	3,554,068,000^{2/}	3,608,035,300
FUND SOURCES			
General Fund	3,374,706,200	3,496,900,300	3,552,067,600
Other Appropriated Funds			
Department of Education Empowerment Scholarship Account Fund	0	200,000	200,000
Education Learning and Accountability Fund	1,200,000	1,200,000	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	2,292,200	2,292,200
SUBTOTAL - Other Appropriated Funds	56,799,200	57,167,700	55,967,700
SUBTOTAL - Appropriated Funds	3,431,505,400	3,554,068,000	3,608,035,300
Other Non-Appropriated Funds	444,356,400	473,528,800	473,528,800
Federal Funds	1,165,736,300	1,074,084,800	1,074,084,800
TOTAL - ALL SOURCES	5,041,598,100	5,101,681,600	5,155,648,900

^{1/} Includes a total of \$329,700 GF and \$64,900 OF appropriated in FY 2012 for costs associated with an additional pay period. These expenditures were not reflected in the individual agency tables in the *FY 2012 Appropriations Report*.

^{2/} In addition to these amounts, the FY 2013 General Appropriation Act included one-time FY 2013 adjustments for a state employee health insurance premium holiday and employee retention payments. The adjustments include a reduction of \$(118,600) GF for the premium holiday and an increase of \$325,800 GF and \$68,200 OF for the employee retention payment.

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	908,503	131,748	1,040,251	6,000	0.6%
2013 est	899,911	144,800	1,044,741	4,460	0.4%
2014 est	895,981	156,255	1,052,237	7,526	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	16,825	1,042	17,867	646	3.7%
2013 est	17,666	1,094	18,760	893	5.0%
2014 est	18,549	1,149	19,698	938	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 annual cost of enrollment growth can be affected by the conversion of existing district schools to charter status. (Please see "Other Issues for Legislative Consideration" for additional information.)

Property Taxes from New Construction GF (46,043,000)

The Baseline includes a decrease of \$(46,043,000) from the General Fund in FY 2014 due to a projected 2.2% 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 \$46,043,000 in FY 2014. It also will decrease state costs by \$(46,043,000), 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 (6.4)% in FY 2014, resulting in a net (4.2)% NAV decline for new construction and existing property combined for FY 2014.

The projected (6.4)% NAV decline for existing property will not affect net QTR or SETR collections in FY 2014, 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 an estimated \$4.19 (from \$3.92 currently) and the SETR will increase to \$0.50 (from \$0.47 currently) in FY 2014 in order to offset the estimated (6.4)% NAV decrease for existing property (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	\$2.0930
• Unified districts and elementary districts not located within a high school district	\$3.9170	\$4.1860
• State Equalization Tax Rate (SETR)	\$0.4717	\$0.5041

In November 2012, Arizona voters approved Proposition 117, 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. 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 GF 8,372,600

The Baseline includes an increase of \$8,372,600 from the General Fund in FY 2014 for a 1.8% 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 1.8% increase in the "base level" prescribed in A.R.S. § 15-901B2, which would remain in FY 2014 at the FY 2013 level of \$3,267.72. Funding a 1.8% increase in the base level for FY 2014 would cost an additional estimated \$81,680,800 for a total estimated inflation adjustment cost of \$90,053,400.

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. The FY 2014 Baseline continues the policy of the prior 3 years.

A lawsuit was filed with the State Supreme Court in August 2010 contending that the state must also increase

Special Session, Chapter 1, as amended by Laws 2012, Chapter 350.

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, 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 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.

Increased Rebate Percentage GF 15,600,000

The Baseline 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 the Arizona Department of Revenue (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. Currently (for FY 2013) the Homeowner's Rebate percentage authorized in A.R.S. § 15-972 is 40%. Chapter 1 requires DOR to increase that percentage for FY 2014 by August 1, 2013. (DOR has not yet computed what the actual rebate percentage will be for FY 2014.) The currently estimated cost of the required increase is \$15,600,000.

1% Cap GF 1,000,000

The Baseline 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 Baseline 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 Baseline 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 Baseline includes \$10,218,400 and 2 FTE Positions in FY 2014 for Accountability and Achievement Testing. These amounts consist of:

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

These amounts are unchanged from FY 2013.

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

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 were required to report program results by October 1, 2013.

Program grants had not yet been awarded as of early December 2012. The application process being concluded by the State Board of Education at that time, however, indicated that preference would be given for proposals that would advance math achievement, address rural needs, target under-represented populations, leverage new technologies, and be replicable across a variety of settings.

State Block Grant for Vocational Education

The Baseline includes \$11,494,500 and 28 FTE Positions from the General Fund in FY 2014 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2013.

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 Baseline includes \$1,787,700 and 23 FTE Positions from the Teacher Certification Fund in FY 2014 for Teacher Certification. These amounts are unchanged from FY 2013.

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 Baseline includes \$1,583,800 and 10 FTE Positions in FY 2014 for the State Board of Education. These amounts consist of:

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

These amounts are unchanged from FY 2013.

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 “Other Issues for Legislative Consideration” for additional information on these 2 programs.)

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

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.

Basic State Aid

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.

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.

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.

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.

K-3 Reading Weight

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.

Achievement Testing

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.

Education Learning and Accountability System

For FY 2014, 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.

English Learner Administration

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.

State Board of Education

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.

Other

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.

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.

Deletion of Prior Year Footnotes

The Baseline would delete the footnote regarding Innovative Education Program Grants, as funding for the program was one-time in nature.

The Baseline would delete the footnote permitting the department to use a portion of monies from the Structured English Immersion Fund to fund a new English language proficiency assessment, as that provision also was one-time in nature.

STATUTORY CHANGES

The Baseline would:

- As permanent law, increase by 1.8% the transportation funding levels prescribed in A.R.S. § 15-945A5 and the charter school "Additional Assistance" amounts prescribed in A.R.S. § 15-185B4.
- As permanent law, maintain at \$3,267.72 for FY 2014 the per pupil "base level" amount prescribed in A.R.S. § 15-901B2 (unchanged from FY 2013).
- As session law, continue to reduce school districts' Soft Capital funding by \$158,120,700. As session law, continue to reduce Soft Capital funding to school districts that do not receive state aid for FY 2014 by the amount that would be reduced if they did qualify for state aid for FY 2014.
- As session law, continue to reduce charter school Additional Assistance funding by \$15,656,000 below the level that otherwise would be funded pursuant to A.R.S. § 15-185B4.
- As session law, continue to reduce school district's Capital Outlay Revenue Limit (CORL) funding by \$(80,864,800). As session law, continue to reduce CORL funding to school districts that do not receive state aid for FY 2014 by the amount that would be reduced if they did qualify for state aid for FY 2014.
- As session law, continue to cap total combined statewide Soft Capital and CORL reductions for school districts with a student count of fewer than 1,100 pupils at \$5,000,000.
- As session law, continue to fund state aid for Joint Technological Education Districts (JTEDs) in FY 2014 at 91% of the formula requirement.

- As session law in the General Appropriation Act, continue to defer \$952,627,700 in Basic State Aid payments for FY 2014 until FY 2015. Appropriate \$952,627,700 in FY 2015 for these deferred Basic State Aid payments. Allow the State Board of Education to make the rollover payment no later than August 29, 2014.
- As session law in the General Appropriation Act, continue 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 or August 2014.
- As permanent law, amend statutory language for computing state aid for accommodation schools to conform with current practice.
- As permanent law, repeal the Early Graduation Scholarship program established in A.R.S. § 15-105.
- As permanent law, require ADE to report by November 30 each year the amount budgeted for school district budget overrides by district and type of override for the current fiscal year. (*See “Other Issues for Legislative Consideration” for additional information.*)

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

Adult Education

State funding for the department’s Adult Education program was discontinued after FY 2010 as part of reductions to the department’s non-formula programs. Prior to FY 2010 the program 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. The program’s 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.

Since FY 2010, ADE has met MOE requirements for the program using a combination of federal “stimulus” monies, previously uncounted local “in kind” contributions, and cash provided by each of the 26 local Adult Education sites. As a result, ADE’s federal funding for Adult Education has remained at the \$11,800,000 level since FY 2010.

ADE indicates that a state MOE for the program will not be required again until FY 2015, so the program is expected to continue to receive \$11,800,000 in federal Adult Education funding through FY 2014, even with no state Adult Education appropriation. The department, however, has requested restoration of the prior \$4,800,000 state General Fund appropriation for the program in FY 2014 in order to return total Adult Education program funding to its pre-FY 2010 level. (*See “State Board of Education” narrative for more information.*)

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” (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.) Capital 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. Capital overrides instead must be used for building renovations or for short-term capital items, such as technology, textbooks, furniture, equipment, and pupil transportation vehicles.

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 have M&O overrides pursuant to A.R.S. § 15-481, 38 have M&O overrides pursuant to A.R.S. § 15-482, and 23 have capital overrides. The total amounts budgeted for overrides for FY 2013 include 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.*)

Currently statewide data on school district budget overrides is not easily accessible. The JLBC therefore suggests that the Legislature consider a statutory change 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 (*see “Statutory Changes” section*).

Education and Learning Accountability System

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, estimates 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 projects 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 estimates 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).

To monitor this specific project, the Legislature has approved 2 different oversight mechanisms. First, A.R.S. § 15-249J requires Joint Legislative Budget Committee review of any ELAS contract prior to the issuance of a related request for proposals (RFP). JLBC review of an ELAS contract has not yet occurred. ADE indicates that ELAS spending to date has occurred under existing contracts. A summary of reported ELAS spending to date (FY 2012 actual and FY 2013 estimated) appears in *Table 6*.

<u>Item</u>	<u>FY 2012</u> <u>Actual</u>	<u>FY 2013</u> <u>Estimate</u>
SAIS Replacement	\$ 4,485,000	\$ 3,316,800
Longitudinal Data System	3,329,700	4,903,600
Instructional Improvement System	1,350,200	2,366,800
ADE Systems	4,486,700	7,373,400
Total	\$13,651,600	\$17,960,600

A summary of reported ELAS revenues to date (FY 2012 actual and FY 2013 estimated) appears in *Table 7*.

<u>Revenue Source</u>	<u>FY 2012</u> <u>Actual</u>	<u>FY 2013</u> <u>Estimate</u>
State Funds (operating budget & Prop 301)	\$ 3,273,300	\$ 3,577,000
ELAS Appropriation ^{1/}	6,600,000	6,200,000
Federal Funds	3,506,500	5,557,900
Other Funds (IGAs)	1,417,000	1,480,500
Carry Forward	0	1,145,200
Total	\$14,796,800	\$17,960,600

^{1/} Includes \$5 million per year from the General Fund.

Second, a General Appropriation Act footnote requires ADE to report ELAS progress on a quarterly basis and stipulates that the report “shall include an assessment of progress from an independent third party that is not affiliated with state government.” ADE’s first quarterly report (September 2013) referenced this requirement by stating that “To that end, included are the comments of three private sector IT professionals, who also serve on the Arizona Ready Council’s IT task force, and who will be working with the state board and the department throughout FY 2013 to provide feedback on AELAS implementation.” The included comments were brief and basically opined that ELAS was “heading in the right direction” and that ADE had developed “a good blue print on how to build an effective system.”

ADE’s third party review did not meet expectations regarding the scope and magnitude of the expected oversight. On a related note, the Arizona Department of Administration (ADOA) also currently is working to manage a large information technology project (replacement of the state’s financial accounting system). For “third party oversight” of this project, ADOA contracted with an independent consulting firm in order to provide more structured assistance on topics such as best practices.

A third potential oversight mechanism for ELAS is the Information Technology Authorization Committee (ITAC) established by A.R.S. § 41-3521. ITAC is housed in ADOA and provides oversight on information technology issues for state agencies. ITAC approval is required for all state agency information technology projects exceeding \$1,000,000. It appears that at least some of the FY 2012 ELAS spending shown in *Table 6* did not receive ITAC approval.

If additional state funding is provided, the JLBC Staff suggests that the Legislature consider the following ELAS changes for FY 2014:

- Make funding contingent upon ITAC and then JLBC review of the project.

- Modify the existing General Appropriation Act footnote on ELAS reporting and oversight to require contracting through a Request for Proposals (RFP) process with an independent outside consultant with expertise on K-12 information technology projects.

As noted above, A.R.S. § 15-249J currently requires JLBC review of any ELAS contract before placement of any advertisement that solicits a response to a RFP. That requirement would remain in effect along with the proposed changes. *(See narrative for the “Education Learning and Accountability System” Special Line Item above for more information.)*

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 Common Core website indicates that the new standards are intended “to ensure that students are receiving a high quality education consistently, from school to school and state to state.” 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.

ADE recently developed a working document that suggests that it will 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.)

School Safety Program

A School Safety Program that places trained school resource officers or juvenile probation officers in public schools has existed in Arizona since FY 1995. The program 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 \$2.5 million. From FY 2002 through FY 2010 (its years of peak funding) the program received approximately \$14.5 million annually, including \$6.7 million from the General Fund and \$7.8 million from Proposition 301 sales tax monies. General Fund support for the program was eliminated in FY 2011. As a result, the program has been operating solely with \$7.8 million in Proposition 301 funding annually since FY 2010.

The \$7.8 million 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 are receiving funding allocations under the program. *(See “State Board of Education” narrative for more information.)*

Charter School Conversions

A.R.S. § 15-183C permits school districts to sponsor charter schools. Currently (in FY 2013), only about 2,300 of the 900,000 school district ADM pupils statewide attend district-sponsored charter schools. There appears to be growing interest, however, in converting existing district schools to charter status, since the Basic State Aid formula currently provides approximately \$1,000 more per student under the charter school versus school district funding formulas. (Charter schools, however, are ineligible for additional local funding, such as for bonds and overrides.) If a school district re-converts a charter school back to non-charter status, it is required to repay the state in one lump sum payment all charter school additional assistance funding received while the charter school was in operation (A.R.S. § 15-185A7).

A Joint Legislative Study Committee is currently reviewing this topic. If charter school conversions became more widespread, there potentially could be a large increase in Basic State Aid costs. As a result, the JLBC Staff suggests that the Legislature clarify whether it will fund a more wholesale use of charter conversions. *(See “Enrollment Growth” narrative under Basic State Aid for more information.)*

FY 2013 Surplus

ADE has projected a FY 2013 surplus of \$46,543,700, which includes a one-time Additional State Aid surplus of \$36,379,800 due to a one-time prior year overpayment.

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
Academic Contest Fund (EDA1006/A.R.S. § 15-1241)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund. The Legislature no longer provides funding for this program.		
Purpose of Fund: To pay for sending state level winners of academic contests and their chaperons to national contests. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	21,000	21,000
Agricultural Youth Organization Special Plate Fund (EDA2560/A.R.S. § 15-791)		Non-Appropriated
Source of Revenue: A deposit of \$17 of each \$25 original and annual renewal Arizona agricultural youth organization special plate fee, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
Purpose of Fund: To issue Arizona agricultural youth organization special plates. ADOT is to annually deposit these monies, excluding administrative fees, into the Arizona Agricultural Youth Organization Special Plate Fund for disbursement by the State Board of Education acting as the State Board for Vocational and Technological Education.		
Funds Expended	20,700	20,700
Year-End Fund Balance	500	3,800
American Competitiveness Project Fund (EDA2361/A.R.S. § 15-245)		Non-Appropriated
Source of Revenue: Donations, grants, gifts, contributions and devises from individuals, corporations and nonprofit organizations.		
Purpose of Fund: To fund technical assistance and distribute grants to schools and other local educational agencies that offer academic programs that emphasize foreign language acquisition, international business and world history.		
Funds Expended	0	0
Year-End Fund Balance	800	800
Assistance for Education Fund (EDA2420/A.R.S. § 15-973.01)		Non-Appropriated
Source of Revenue: State income tax refunds that are donated to the fund via a check-off box on state income tax forms pursuant to A.R.S. § 43-617.		
Purpose of Fund: To provide additional funding support for public schools.		
Funds Expended	0	0
Year-End Fund Balance	517,300	597,400
Character Education Special Plate Fund (EDA2522/A.R.S. § 15-719)		Non-Appropriated
Source of Revenue: \$17 of the \$25 fee for Character Education license plates.		
Purpose of Fund: To fund character education programs in schools. Not more than 10% of monies deposited in the fund annually shall be used for the cost of administering the fund.		
Funds Expended	44,500	40,000
Year-End Fund Balance	6,500	8,300
Charter Schools Stimulus Fund (EDA1007/A.R.S. § 15-188)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund. The Legislature no longer provides funding for this program.		
Purpose of Fund: To encourage the establishment of charter schools by assisting with charter school start-up costs.		
Funds Expended	0	0
Year-End Fund Balance	3,600	3,600
Classroom Site Fund (EDA2471/A.R.S. § 15-977)		Non-Appropriated
Source of Revenue: A portion of the Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E10, and Permanent State School Fund expendable earnings that exceed the FY 2001 level, pursuant to A.R.S. § 37-521B4.		
Purpose of Fund: To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
Funds Expended	283,544,200	320,310,400
Year-End Fund Balance	35,590,800	17,796,100

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
Department of Education Empowerment Scholarship Account Fund (EDA2570/A.R.S. § 15-2402)		Appropriated
Source of Revenue: Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C.		
Purpose of Fund: To fund ADE's costs of administering the Empowerment Scholarships Accounts program authorized by A.R.S. § 15-2402. ADE also transfers Basic State Aid monies to the State Treasurer each quarter to fund Empowerment Scholarship Accounts for individual students (the total FY 2012 scholarship account transfer was approximately \$1.6 million). The student account monies are not displayed to avoid double counting of the General Fund (<i>see also the "State Treasurer Empowerment Scholarship Account Fund" in the Summary of Funds for the State Treasurer</i>).		
Funds Expended	0	200,000
Year-End Fund Balance	0	0
Displaced Pupils Choice Grant Fund (EDA2533/A.R.S. § 15-817.06)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund. Due to a court decision, the Legislature no longer provides funding for this program.		
Purpose of Fund: To provide qualifying displaced pupils with grants to be applied toward tuition and fees charged by nongovernmental schools. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Early Graduation Scholarship Fund (EDA2364/A.R.S. § 15-105L)		Non-Appropriated
Source of Revenue: Monies deposited into the fund by the Arizona Department of Education pursuant to A.R.S. § 15-105F & J.		
Purpose of Fund: To provide postsecondary education scholarships to individuals who graduated at least 1 year early from a public high school. (<i>See Fund PEA 2364 in the Summary of Funds for the Commission for Postsecondary Education for more information.</i>)		
Funds Expended	0	0
Year-End Fund Balance	0	0
Education Commodity Fund (EDA4210/A.R.S. § 15-1152)		Non-Appropriated
Source of Revenue: Fees from school districts participating in the federal Food Commodities Program.		
Purpose of Fund: To pay for costs of administering the federal Food Commodities Program.		
Funds Expended	73,400	99,300
Year-End Fund Balance	102,200	47,900
Education Donations Fund (EDA2025/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Grants received by the department from foundations or other private sector donors.		
Purpose of Fund: To help pay for conferences, programs or other activities that are sponsored by donor organizations.		
Funds Expended	121,800	114,500
Year-End Fund Balance	584,000	638,500
Education Learning and Accountability Fund (EDA2552/A.R.S. § 15-249.02)		Partially-Appropriated
Source of Revenue: In FY 2013, the appropriated portion of the fund is receiving a transfer of \$6 per Full-Time Student Equivalent (FTSE) from Arizona public universities and community colleges pursuant to Laws 2012, Chapter 300, Section 19. (A \$6 per pupil transfer also occurred in FY 2012.) The non-appropriated portion is receiving \$5,000,000 in state General Fund monies in FY 2013 (unchanged from FY 2012). Expenditures of non-appropriated monies are not displayed to avoid double counting of the General Fund.		
Purpose of Fund: To develop and implement the Education Learning and Accountability System (ELAS) pursuant to A.R.S. § 15-249.		
Appropriated Funds Expended	1,200,000	1,200,000
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	2,528,400	2,528,400

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
Failing Schools Tutoring Fund (EDA2470/A.R.S. § 15-241)		Non-Appropriated
Source of Revenue: A portion of the 0.6% Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E8.		
Purpose of Fund: To fund tutoring for students who have not yet passed portions of the high school AIMS test or who attend "failing" schools, pursuant to A.R.S. § 15-241R, and to purchase materials designed to help students meet the Arizona Academic Standards and pass the AIMS test, pursuant to A.R.S. § 15-241CC.		
Funds Expended	1,956,600	1,816,500
Year-End Fund Balance	897,100	580,600
Federal Funds (EDA2000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
Purpose of Fund: To be expended as stipulated by federal statutes that authorize the Federal grants.		
Funds Expended	1,027,915,100	1,053,001,800
Year-End Fund Balance	3,214,900	2,128,100
Federal Grants - American Recovery and Reinvestment Act (ARRA) (EDA2999/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
Purpose of Fund: One-time Federal Funds to be used by the department to offset state reductions and enhance funding for programs such as Special Education and Title I.		
Funds Expended	137,821,200	21,083,000
Year-End Fund Balance	222,900	26,843,200
Golden Rule Special Plate Fund (EDA2366/A.R.S. § 15-243)		Non-Appropriated
Source of Revenue: \$17 of the \$25 fee for Golden Rule license plates.		
Purpose of Fund: To fund programs that demonstrate the promotion of the golden rule in schools and communities.		
Funds Expended	180,800	180,500
Year-End Fund Balance	16,500	16,000
IGA and ISA Fund (EDA2500/A.R.S. § 35-142E)		Non-Appropriated
Source of Revenue: Monies transferred into the fund from Federal Funds (EDA2000) and the Internal Services Fund (EDA4209).		
Purpose of Fund: Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
Funds Expended	11,494,300	3,718,300
Year-End Fund Balance	11,200	212,900
Indirect Cost Recovery Fund (EDA9000/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
Purpose of Fund: To fund overhead and other indirect costs associated with state level administration of federal programs.		
Funds Expended	3,966,500	5,042,000
Year-End Fund Balance	1,400,700	816,700
Instructional Improvement Fund (EDA2492/A.R.S. § 15-979)		Non-Appropriated
Source of Revenue: Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts.		
Purpose of Fund: To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
Funds Expended	42,221,400	42,090,000
Year-End Fund Balance	23,800	20,500

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
Internal Services Fund (EDA4209/A.R.S. § 35-142)		Non-Appropriated
Source of Revenue: Federal indirect cost monies and intra-office fees for copier services, MIS maintenance, postage and other miscellaneous expenditures.		
Purpose of Fund: Clearing fund for federal indirect costs and miscellaneous intra-office revenues and expenditures.		
Funds Expended	3,889,000	3,598,800
Year-End Fund Balance	1,518,900	1,685,200
Permanent State School Fund (EDA3138/A.R.S. § 37-521)		Partially-Appropriated
Source of Revenue: Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund, up to the amount generated in FY 2001 (\$72,263,000), are automatically appropriated first to pay for debt service on State School Facilities Revenue Bonds, Qualified Zone Academy Bonds (QZAB) or State School Trust Revenue Bonds. Any remaining monies from the \$72,263,000 baseline total are then subject to appropriation to ADE to help fund Basic State Aid pursuant to A.R.S. § 15-971H. Expendable earnings beyond the \$72,263,000 baseline total from FY 2001 are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4.		
In the display below, the "Funds Expended" total equals the amount used for Basic State Aid. Not included are monies automatically appropriated into the Classroom Site Fund pursuant to A.R.S. § 37-521B4. (See "State Land Trust Bond Debt Service Fund" and "School Improvement Revenue Bond Debt Service Fund" in the Summary of Funds for the School Facilities Board budget for information on other uses of expendable monies from this fund.)		
Purpose of Fund: To support common schools.		
Funds Expended	46,475,500	46,475,500
Year-End Fund Balance*	(67,100)	(67,100)
Production Revolving Fund (EDA4211/A.R.S. § 15-237)		Non-Appropriated
Source of Revenue: Print shop collections from in-house and interagency publishing.		
Purpose of Fund: To fund agency print shop expenditures.		
Funds Expended	1,700,200	2,013,800
Year-End Fund Balance	868,000	495,300
Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7) (EDA 1015, 1016 & 1017/A.R.S. § 42-5029E5 & E6)		Partially-Appropriated
Source of Revenue: A portion of the Proposition 301 sale tax pursuant to A.R.S. § 42-5029E5-7. The appropriated portion of the fund receives "up to \$7 million" monies appropriated by the Legislature pursuant to A.R.S. § 42-5029E7. The non-appropriated portion receives monies automatically appropriated by Proposition 301 for additional school days, School Safety and Character Education, plus any unspent "up to \$7 million" monies from the prior year.		
Purpose of Fund: To pay for K-12 Achievement Testing (appropriated) and additional school days, School Safety and Character Education (non-appropriated).		
Appropriated Funds Expended	7,000,000	7,000,000
Non-Appropriated Funds Expended	95,143,000	94,484,000
Year-End Fund Balance	9,994,000	9,790,500
Scholarships for Pupils With Disabilities Program Fund (EDA2534/A.R.S. § 15-891.04)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund. Due to a court decision, the Legislature no longer provides funding for this program.		
Purpose of Fund: To provide disabled pupils with scholarships to attend the public or non-public school of their choice. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	729,900	729,900

SUMMARY OF FUNDS	FY 2012 Actual	FY 2013 Estimate
Special Education Fund (EDA1009/A.R.S. § 15-1182)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To provide voucher funding for students attending the ASDB pursuant to A.R.S. § 15-1182 or who are placed in a private special education facility pursuant to A.R.S. § 15-1202. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	1,722,900	1,697,100
Structured English Immersion Fund (EDA2535/A.R.S. § 15-756.04)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To fund additional instructional costs of English Language Learners. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	10,603,500	10,603,500
Teacher Certification Fund (EDA2399/A.R.S. § 15-531)		Appropriated
Source of Revenue: Fees collected by the State Board of Education from teachers and other school personnel who apply for professional certification.		
Purpose of Fund: To provide monies for operation of the department's Teacher Certification program.		
Funds Expended	2,123,700	2,292,200
Year-End Fund Balance*	40,200	(168,100)
Temporary Transaction Privilege and Use Tax - 1% Fund (EDA1032/Article IX, Section 12.1 of State Constitution)		Non-Appropriated
Source of Revenue: Temporary 3-year 1-cent sales and use tax authorized by voters during the May 2010 special election. The tax expires after May 31, 2013.		
Purpose of Fund: To provide funding for primary and secondary education, health and human services and public safety. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Youth Farm Loan Fund (EDA2136/A.R.S. § 15-1172)		Non-Appropriated
Source of Revenue: The investment of trust funds held by the United States as trustee for the Arizona Rural Rehabilitation Corporation.		
Purpose of Fund: To furnish financial assistance to deserving young persons, under 25 years of age, who are students or former students of vocational education or to young farmers in organized vocational agriculture classes who are interested in becoming established in farming. The financial assistance is provided as guaranteed loans for those who cannot obtain financing elsewhere.		
Funds Expended	0	0
Year-End Fund Balance	352,500	356,100

* As reported by the agency. Actual ending balances will not be negative.