

Department of Education

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	171.4	175.9	175.9
Personal Services	3,908,600	4,844,800	4,844,800
Employee Related Expenditures	1,412,000	1,826,400	1,826,400
Professional and Outside Services	44,400	395,100	395,100
Travel - In State	21,000	30,200	30,200
Travel - Out of State	26,700	34,000	34,000
Other Operating Expenditures	1,854,500	1,448,100	1,448,100
Equipment	101,600	20,500	20,500
OPERATING SUBTOTAL	7,368,800	8,599,100	8,599,100
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,107,154,500	3,206,155,100	3,359,610,300
K-3 Reading	39,972,700	40,007,600	40,007,600
Additional State Aid	286,677,100	339,269,300	352,502,000
Special Education Fund	33,242,100	33,242,100	33,242,100
Other State Aid to Districts	574,000	983,900	983,900
Non-Formula Programs			
Accountability and Achievement Testing	8,443,300	10,223,600	10,223,600
Adult Education	0	4,500,000	4,500,000
Arizona Structured English Immersion Fund	8,791,400	8,791,400	8,791,400
Education Learning and Accountability System	6,200,000	0	0
English Learner Administration	4,002,500	4,016,200	4,016,200
Innovative Education Program Grants	2,845,300	0	0
Performance Incentive Fund Deposit	0	2,400,000	2,400,000
School Safety Program	0	3,646,400	3,646,400
State Block Grant - Vocational Education	11,504,000	11,575,400	11,575,400
Teacher Certification	1,639,900	1,841,900	1,841,900
State Board of Education			
State Board of Education	1,564,400	1,614,400	1,614,400
AGENCY TOTAL	3,519,980,000	3,676,866,400	3,843,554,300
FUND SOURCES			
General Fund	3,464,988,900	3,620,831,200	3,787,519,100
Other Appropriated Funds			
Department of Education Empowerment Scholarship Account Fund	62,100	200,000	200,000
Education Learning and Accountability Fund	1,200,000	0	0
Permanent State School Fund	46,406,900	46,475,500	46,475,500
Proposition 301 Fund	5,221,200	7,000,000	7,000,000
Teacher Certification Fund	2,100,900	2,359,700	2,359,700
SUBTOTAL - Other Appropriated Funds	54,991,100	56,035,200	56,035,200
SUBTOTAL - Appropriated Funds	3,519,980,000	3,676,866,400	3,843,554,300
Other Non-Appropriated Funds	489,579,000	569,908,400	569,908,400
Federal Funds	1,118,764,300	1,074,288,800	1,074,288,800
TOTAL - ALL SOURCES	5,128,323,300	5,321,063,600	5,487,751,500

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2015 it is anticipated that the department will oversee 237 school districts, accommodation districts and Joint Technological Education Districts and approximately 430 charter schools in their provision of public education from preschool through grade 12.

Summary

ADE’s FY 2015 General Fund Baseline spending would increase by \$166,687,900, or 4.6%. The Baseline includes:

- An increase of \$10,000,000 to offset an estimated Basic State Aid shortfall for FY 2014.
- A decrease of \$(10,212,500) to offset a Homeowner’s Rebate funding surplus from FY 2014.
- An increase of \$62,470,400 for 1.1% Average Daily Membership (ADM) growth in FY 2015.
- An increase of \$21,817,400 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$74,609,600 for a 1.4% inflator.
- A decrease of \$(42,349,400) for local property tax growth due to new construction (includes related Homeowner’s Rebate impact).
- An increase of \$33,300,000 for charter school conversions.
- An increase of \$22,300,000 for higher Basic State Aid and Homeowner’s Rebate costs due to recent statutory changes.
- A decrease of \$(5,247,600) for fourth year of 5-year Career Ladder phase out.

Operating Budget

The Baseline includes \$8,599,100 and 90.9 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
General Fund	\$8,261,000
Department of Education Empowerment	
Scholarship Account Fund	200,000
Teacher Certification Fund	138,100

These amounts are unchanged for FY 2015.

Formula Programs

Basic State Aid

The Baseline includes 3,359,610,300 in FY 2015 for Basic State Aid. This amount consists of:

General Fund	3,313,134,800
Permanent State School Fund	46,475,500

The \$3,359,610,300 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 2015 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 2015, as they also are non-appropriated. In addition, it excludes \$40,007,600 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 \$3,359,610,300 Baseline total would include a net General Fund increase of \$153,455,200 and no change from the Permanent State School Fund for FY 2015. FY 2015 adjustments would be as follows:

Table 1	
FY 2015 Basic State Aid Formula Summary	
General Fund	
FY 2014 Appropriation	\$3,159,679,600
Base Adjustment – FY14 shortfall	10,000,000
Enrollment Growth @ 1.1%	62,470,400
Higher Average Cost Per Pupil	21,817,400
1.4% Inflator	74,609,600
Property Taxes - New Construction	(47,294,600)
Property Taxes - Statutory Changes	3,800,000
Charter Conversions	33,300,000
Career Ladder Phase Out	(5,247,600)
FY 2014 budget	3,313,134,800
K-3 Reading Program (separate Special Line Item)	40,007,600
Permanent State School Fund (no change)	46,475,500
Prop 301 Sales Tax (no change) ^{1/}	86,280,500
Local Property Taxes ^{1/}	
FY 2013 Base	2,343,289,400
Property Taxes - New Construction	47,294,600
Property Taxes – Homeowner’s Rebate	(3,800,000)
FY 2015 Estimated ^{2/}	2,386,784,000
Grand Total (all sources) ^{3/}	\$5,872,682,400

^{1/} Non-appropriated, so excluded from appropriated totals.
^{2/} An estimated \$352,502,000 of this total will be funded by the state through the Homeowner’s Rebate.
^{3/} Statutory formula cost would be approximately \$276,000,000 higher without the District Additional Assistance, and charter school Additional Assistance and JTED reductions that are continued in the Baseline on a session law basis, including the impact on non-state aid districts.

Base Adjustment GF 10,000,000

The Baseline includes an increase of \$10,000,000 from the General Fund in FY 2015 in order to adjust the program’s base budget for a projected \$(10,000,000) shortfall in program funding for FY 2014. That shortfall would increase starting point costs for the program for FY 2015 by \$10,000,000. The \$(10,000,000) shortfall estimate for FY 2014 is preliminary in nature and subject to substantial revision as additional FY 2014 data becomes available. (See “Other Issues for Legislative Consideration” for more information.)

Enrollment Growth GF 62,470,400

The Baseline includes an increase of \$62,470,400 from the General Fund in FY 2015 for enrollment growth. This assumes that K-12 ADM will increase by 1.1% in FY 2015, or slightly more than the 0.9% increase observed in FY 2013 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Fiscal Year	District ^{2/}	Charter ^{3/}	Total	Change	% Change
2008	947,964	93,284	1,041,248	15,543	1.5%
2009	941,694	100,590	1,042,284	1,036	0.1%
2010	936,434	110,231	1,046,665	4,381	0.4%
2011	914,929	119,321	1,034,250	(12,415)	(1.2)%
2012	909,536	131,993	1,041,529	7,279	0.7%
2013	910,553	140,199	1,050,732	9,203	0.9%
2014 est	914,140	147,318	1,061,458	10,726	1.0%
2015 est	918,319	155,133	1,073,452	11,994	1.1%
2016 est	923,346	163,471	1,086,817	13,365	1.2%
2017 est	928,511	172,366	1,100,877	14,060	1.3%

^{1/} Actuals for FY 2008 through FY 2013 are from ADE payment data. Figures for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).
^{2/} Includes district-sponsored charter schools.
^{3/} Excludes district-sponsored charter schools.

Higher Average Cost Per Pupil GF 21,817,400

The Baseline includes an increase of \$21,817,400 from the General Fund in FY 2015 for growth in the average Basic State Aid cost per pupil for FY 2015. The average cost per pupil increases every year due to ongoing growth in the proportion of K-12 pupils who are enrolled in charter schools or special education programs. Charter school students typically receive more formula funding per pupil than non-charter school students (although they do not receive local bond and override funding) and special education students receive “add on” funding that increases their average per pupil costs.

The \$21,817,400 estimate includes \$9,000,000 for charter school pupils and \$12,817,400 for special education students in FY 2015. The charter estimate assumes that board sponsored charter schools will continue to grow by approximately 9,000 ADM in FY 2015 and receive approximately \$1,000 more per pupil than non-charter

pupils (9,000 X \$1,000 = \$9,000,000). The special education estimate assumes that the statewide special education weighted student count will continue to increase by approximately 3,800 ADM in FY 2015 (see Table 3) and an average per pupil “base level” of \$3,373 (3,800 X \$3,373 = \$12,817,400). The assumed \$3,373 “base level” amount is “add on” in nature for special education pupils because it is in addition to “base level” funding that they generate under the “main” (non-special education) part of the Basic State Aid formula.

Fiscal Year	Districts	Charters	Total	Change	% Change
2008	76,640	2,690	79,330	5,393	7.3%
2009	81,311	3,239	84,550	5,219	6.6%
2010	83,450	4,104	87,554	3,004	3.6%
2011	88,633	5,189	93,823	6,269	7.2%
2012	92,700	5,858	98,558	4,736	5.0%
2013	95,799	6,522	102,321	3,763	3.8%
2014 est	98,939	7,182	106,121	3,800	3.7%
2015 est	102,079	7,842	109,921	3,800	3.6%

^{1/} Actuals for FY 2008 through FY 2013 are from ADE payment data. Excludes “Group B” category that only receives funding weight of 0.003 (302 additional “weighted” students for FY 2013) and students enrolled at ASDB.

The Baseline also provides additional funding for the conversion of existing district schools to charter status (“charter conversions”). (See “Charter Conversions” narrative below for additional information.)

1.4% Inflation Adjustment GF 74,609,600

The Baseline includes an increase of \$74,609,600 from the General Fund in FY 2015 for a 1.4% 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 would result in a “base level” of \$3,373.11 per pupil for FY 2015 versus \$3,326.54 for FY 2014.

A.R.S. § 15-901.01 (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 assumed FY 2015 Baseline adjustment is 1.4%, which equals the currently projected GDP price deflator for calendar year 2013. 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.

The budgets for FY 2011 through FY 2013 provided inflation increases for transportation and charter school Additional Assistance only. The State Supreme Court ruled in September 2013 (Cave Creek Unified, et. al. v. Ducey) that the state must inflate the K-12 per pupil “base level” annually, as well as transportation and charter

Additional Assistance. The Baseline does not include retroactive payments for FY 2011 through FY 2013.

Property Taxes from New Construction GF (47,294,600)

The Baseline includes a decrease of \$(47,294,600) from the General Fund in FY 2015 due to a projected 2.0% increase in statewide Net Assessed Value (NAV) from new construction in FY 2015. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$47,294,600 in FY 2015. It also will decrease state costs by \$(47,294,600), 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 increase by 7.0% in FY 2015, resulting in a net 9.0% NAV increase for new construction and existing property combined for FY 2015.

The projected 7.0% NAV increase for existing property will not affect net QTR or SETR collections in FY 2015 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 decrease to an estimated \$3.97 (from \$4.25 currently) and the SETR will decrease to \$0.48 (from \$0.51 currently) in FY 2015 in order to offset the estimated 7.0% NAV increase for existing property (see Table 4).

TNT Tax Rates			
Tax Rate		FY 2014	FY 2015
Qualifying Tax Rate (QTR)			
• High School districts and elementary districts located within a high school district		\$2.1265	\$1.9868
• Unified districts and elementary districts not located within a high school district		\$4.2530	\$3.9736
• State Equalization Tax Rate (SETR)		\$0.5123	\$0.4787

Additional K-12 property tax impacts will occur in FY 2015 due to statutory changes discussed separately below.

Property Taxes - Statutory Changes GF 3,800,000

The Baseline includes an increase of \$3,800,000 from the General Fund in FY 2015 to offset an anticipated reduction in K-12 QTR and SETR tax collections for FY 2015 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 \$(3,800,000) in FY 2015. This will increase Basic State Aid costs by an estimated \$3,800,000 in FY 2015, since QTR and SETR revenues offset state K-12 formula costs on a dollar for dollar basis.

Charter Conversions GF 33,300,000

The Baseline includes an increase of \$33,300,000 from the General Fund in FY 2015 for Basic State Aid costs related to converting existing district schools into charter schools (“charter conversions”). Charter conversions increase state costs because charter schools typically receive about \$1,000 more per pupil under the Basic State Aid formula than district schools (but usually do not receive bond or override funding). The \$33,300,000 increase for FY 2015 includes an estimated \$5,800,000 for second year costs of schools converted in FY 2014 and \$27,500,000 for first year costs of additional charter conversions in FY 2015. These estimates assumed that the number of students in converted schools will double annually through FY 2017 (see Table 5).

ADE data indicate that 57 schools in 18 school districts converted to charter status or opened as brand new charter schools (5 of the 57) for FY 2014. Under preliminary data, these conversions involve approximately 33,300 ADM, which is expected to increase Basic State Aid costs over a 2-year period by approximately \$33,300,000 (33,300 ADM X \$1,000 more per pupil = \$33,300,000). This increase will appear over a 2-year period. Most of the estimated \$33,300,000 cost for conversions taking place in FY 2014 will occur in the first year (during FY 2014) because current law funds non-growing districts based on their prior year non-charter ADM plus their current year charter ADM. (See “Other Issues for Legislative Consideration” for more information.)

The estimated \$27,500,000 first year cost for FY 2014 assumes an average cost of \$5,000 per pupil for the estimated 5,500 ADM in “charter conversions” that qualify for funding under the charter formula in FY 2014 (5,500 ADM X \$5,000 = \$27,500,000). The average cost per charter school pupil in FY 2014 is currently estimated at \$6,300, but a \$5,000 average per pupil is assumed above for the following reasons: 1) the average per pupil impact would be less for growing districts, since they are funded based on current year counts only; 2) most charter conversions serve elementary pupils, who typically receive less funding than high school pupils; 3) the projected \$6,300 charter school per pupil average for FY 2014 includes funding for “small school weights,” which do not apply to district sponsored charter schools; and 4) ADM growth in district-sponsored charter school could reduce ADM growth in non-district charter schools.

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.

A continued \$930,727,700 rollover for FY 2015 would include \$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.

**Empowerment Scholarship GF 0
Accounts**

The Baseline includes no change from the General Fund in FY 2015 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 have not increased 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. Kindergartners who otherwise would not be attending public schools therefore now represent a new state cost under the program.

In addition, Chapter 250 amended the funding formula for the ESA program in a manner that funds all ESA recipients at essentially 90% of what they would cost under the charter school rather than school district ESA funding formula, which is increasing ESA costs by approximately \$1,700 per pupil starting in FY 2014. As a result, the ESA formula now probably results in a new state cost for some participants. A non-disabled pupil who otherwise would attend a traditional public school, for example, typically would receive approximately \$5,400 in FY 2015 under the Basic State Aid funding formula versus approximately \$5,800 (90% of the charter school average of about \$6,400) under the revised ESA formula. Due to the lack of a track record on how these recent changes affect state costs, additional information will be needed in order to determine whether Basic State Aid funding should be adjusted to reflect program impacts.

Table 6 shows historical and projected data for the ESA program. For FY 2015, ADE currently estimates that 2,000 students will receive \$25,000,000 in ESA funding.

Fiscal Year	Program Enrollment	Total Awards
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014 (est)	761	\$10,200,000
FY 2015 (est)	2,000	\$25,000,000

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

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 Baseline would continue to appropriate \$200,000 to ADE from the Department of Education Empowerment Scholarship Account Fund (A.R.S. § 15-2402D) in FY 2015 for program administration (*see agency operating budget narrative above*). The Baseline likewise would continue to appropriate \$40,000 from the State Treasurer Empowerment Scholarship Account Fund in FY 2015 for ESA program administration (*see related narrative in State Treasurer Baseline pages*).

(For additional ESA information, see the “Empowerment Scholarship Accounts” policy issue in the Department of Education section of the FY 2014 Appropriations Report.)

Continuation of Prior Year Session Law

The FY 2015 Baseline would continue the following session law changes from FY 2014 (*see “Statutory Changes” section for more information*):

- District Additional Assistance (DAA) - Continue a DAA funding reduction of \$(238,985,500) for state aid districts and continue to reduce local DAA funding for non-state aid districts accordingly.
- Charter Additional Assistance (CAA) - Continue a CAA funding reduction of \$(15,656,000).
- Joint Technological Education Districts - Continue to fund state aid for “large” JTEDs (ones with more than 2,000 ADM) at 91% of the amount that otherwise would be provided by law.

K-3 Reading

The Baseline includes \$40,007,600 and 2 FTE Positions from the General Fund in FY 2015 for the K-3 Reading program. These amounts are unchanged from FY 2014.

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. The Baseline would continue a General Appropriation Act footnote stipulating 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. In FY 2013, the department used \$449,500 for those purposes.

Additional State Aid

The Baseline includes \$352,502,000 from the General Fund in FY 2015 for Additional State Aid (ASA). FY 2015 adjustments would be as follows:

Base Adjustment **GF (10,212,500)**

The Baseline includes a decrease of \$(10,212,500) from the General Fund in FY 2015 to align the program’s base budget with actual reported costs for FY 2014. The Arizona Department of Revenue (DOR) reported in November 2013 that the program would cost \$329,056,800 for FY 2014, which is \$(10,212,500) less than its FY 2014 appropriation. Program costs have been more difficult to project in recent years due to new restrictions on Homeowner’s Rebate funding established by Laws 2011, 2nd Special Session, Chapter 1, as amended by Laws 2012, Chapter 350. (See “Other Issues for Legislative Consideration” for FY 2014 summary.)

New Homes **GF 4,945,200**

The Baseline includes an increase of \$4,945,200 from the General Fund in FY 2015 for increased Homeowner’s Rebate costs associated with new home construction. The \$4,945,200 estimate assumes that Class 3 properties (owner occupied homes) will account for about one-fourth of statewide property tax growth from new construction in FY 2015 and that 41.825% of the QTR taxes owed by new homes will be paid by the state through the Homeowner’s Rebate.

Increased Rebate Percentage **GF 18,500,000**

The Baseline includes an increase of \$18,500,000 from the General Fund in FY 2015 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. For FY 2014, DOR increased the rebate percentage to 41.825% versus 40.0% in FY 2013. The currently estimated cost of the required rebate percentage increase for FY 2015 is \$18,500,000, which would reflect a rebate percentage of roughly 44.0%. DOR is not expected to determine the actual rebate percentage for FY 2015 until the summer of 2014.

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 2015 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2014.

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 2015 for Other State Aid to Districts. This amount is unchanged from FY 2014.

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 \$10,223,600 and 2 FTE Positions in FY 2015 for Accountability and Achievement Testing. These amounts consist of:

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

These amounts are unchanged from FY 2014.

Achievement testing costs are expected to increase in FY 2015 under new “Arizona College and Career Ready” (Common Core) tests to be implemented starting in FY 2015. The Baseline maintains program funding at the FY 2014 level, however, pending resolution of various unresolved issues describe below. These include selection of a test vendor, determination of a contract cost, and the availability of federal and other non-General Fund funding for the new testing program. (See “Other Issues for Legislative Consideration” for more information.)

On a related note, an existing General Appropriation Act footnote requires the State Board of Education to report to the JLBC the estimated fiscal impact of any changes to the Achievement Testing program that will increase program

costs. The Baseline recommends modifying this footnote to instead require JLBC review of such changes.

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.

Adult Education

The Baseline includes \$4,500,000 from the General Fund in FY 2015 for Adult Education. These amounts are unchanged from FY 2015.

The program provides instruction in the following areas to adult learners who are at least 16 years of age: 1) English Language Acquisition; 2) Adult Basic Education, including GED preparation; 3) Adult Secondary Education; 4) Civics; and 5) Basic computer literacy skills. Program monies are distributed through a competitive grant process. In FY 2014, a total of 18 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also receives approximately \$12,800,000 in federal funding annually. Its federal monies are subject to non-supplanting and maintenance of effort requirements stipulated in federal law.

Arizona Structured English Immersion Fund

The Baseline includes \$8,791,400 from the General Fund in FY 2015 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2014.

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 and charter schools based on amounts that they request pursuant to A.R.S. § 15-756.04C. The department distributed \$4,351,600 to public schools from the fund in FY 2013. It also used \$6,833,000 from the fund in FY 2013 to help pay for replacement of the English language proficiency (“AzELLA”) test for English Learners, as authorized by a footnote in the FY 2013 General Appropriation Act.

The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) requires the department to transfer \$10,000,000 from the fund to the state General Fund in FY 2014 in order to draw down accumulated balances. The department currently projects that the fund will have no carry forward balance at the end of FY 2014.

Education Learning and Accountability System

The Baseline includes no funding in ADE in FY 2015 for the Education Learning and Accountability System (ELAS). These amounts are unchanged from FY 2014. The program is now being funded through the Arizona Department of Administration rather than ADE. (*Please see the Arizona Department of Administration – Automation Projects Fund section for more information.*)

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 1 through 12 and postsecondary educational programs in this state” (A.R.S. § 15-249A).

English Learner Administration

The Baseline includes \$4,016,200 and 19 FTE Positions from the General Fund in FY 2015 for English Learner Programs. These amounts are unchanged from FY 2014.

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.

Performance Incentive Fund Deposit

The Baseline includes \$2,400,000 from the General Fund in FY 2015 for the Performance Incentive Fund Deposit Special Line Item. These amounts are unchanged from FY 2014.

A.R.S. § 15-917 establishes the Performance Incentive Fund and requires ADE to distribute its monies 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. A.R.S. § 35-125 requires each year’s budget process to provide 3-year funding estimates. Supporting material for the FY 2014 budget assumed a \$35,000,000 cost for this program

for FY 2015's 3-year projections. There is no statutory requirement, however, to fund the \$35,000,000 amount. The Baseline maintains program funding the FY 2014 level of \$2,400,000 pending resolution of key issues needed for program implementation. The program is not operational for FY 2014 and current law does not prescribe a formula for allocating program funding to individual school districts and charter schools.

School Safety Program

The Baseline includes \$3,646,400 from the General Fund in FY 2015 for the School Safety program. These amounts are unchanged from FY 2014.

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.

In FY 2014, \$3,646,400 in state General Fund funding was restored for the program, providing it with General Fund support for the first time since FY 2010. The FY 2014 K-12 Education BRB (Laws 2013, 1st Special Session, Chapter 3) requires \$100,000 of the \$3,646,400 appropriation to be used for a pilot program on school emergency readiness and establishes requirements for that program. In addition, the FY 2014 General Appropriation Act requires at least 25% of the appropriated amount (\$911,600) to be spent on security hardware. The remaining \$2,600,000 is being used in FY 2014 to fund 19 new sites, resulting in 53 total sites being funded. In FY 2013, a total of 35 sites received program funding.

All available state General Fund and Proposition 301 funding for the program is allocated annually by the School Safety Program Oversight Committee pursuant to A.R.S. § 15-153C. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2014 is the last year of the current cycle.

Program funding is used primarily to pay officer salaries and benefits. Law enforcement agencies typically cover associated costs for police cars, uniforms and equipment. School districts and charter schools typically pay costs for related overhead, supervision and supplies.

State Block Grant for Vocational Education

The Baseline includes \$11,575,400 and 28 FTE Positions from the General Fund in FY 2015 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2014.

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 Baseline includes \$1,841,900 and 23 FTE Positions from the Teacher Certification Fund in FY 2015 for Teacher Certification. These amounts are unchanged from FY 2014.

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 \$1,614,400 and 10 FTE Positions in FY 2015 for the State Board of Education. These amounts consist of:

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

These amounts are unchanged from FY 2014.

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.)

FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Operating Budget

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.

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 2015.

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~~ SUBMIT the estimated fiscal impact of those changes to the Joint Legislative Budget Committee FOR REVIEW. *(The modified language would require JLBC review of the estimated fiscal impact of changes to the Achievement Testing program that would increase program costs, rather than requiring only a report of that fiscal impact to the Committee.)*

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.

School Safety

At least 25% of the appropriated amount shall be spent on security hardware

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.

For FY 2015, 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 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. (The modified language would eliminate a requirement for independent 3rd party review of AELAS from an entity not affiliated with state government, as a contracted vendor report issued in September 2013 fulfilled that requirement.)~~

Deletion of Prior Year Footnotes

The Baseline would delete the footnote indicating that \$82,000,000 of the appropriated amount for Basic State Aid was available for increased operating costs of school districts and charter schools, as that footnote was one-time in nature.

STATUTORY CHANGES

The Baseline would:

- As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the Charter Additional Assistance amounts (A.R.S. § 15-185B4) by 1.4%.
- As session law, continue to reduce state aid for District Additional Assistance by \$238,985,500 and reduce budget limits accordingly.
- As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2015 by the amount that would be reduced if they did qualify for state aid for FY 2015 and reduce budget limits accordingly.
- As session law, continue to reduce Charter Additional Assistance by \$15,656,000.
- As session law, continue to reduce Charter Additional Assistance funding to school districts with charter schools that do not receive state aid in FY 2015 by the amount that would be reduced under the continuing \$15,656,000 statewide Charter Additional Assistance suspension if they did qualify for state aid for FY 2015 and reduce budget limits accordingly.
- As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.
- As session law, continue to fund state aid for Joint Technological Education Districts (JTEDs) in FY 2015 at 91% of the formula requirement for JTEDs with more than 2,000 students and reduce budget limits accordingly. Would continue to fund smaller JTEDs at 100%.
- As session law, continue to require community colleges and universities to transfer \$6 per pupil to ADE by December 1, 2014 for deposit into the Education Learning and Accountability Fund.
- As session law in the General Appropriation Act, continue to defer \$930,727,700 in Basic State Aid payments for FY 2015 until FY 2016. Appropriate \$930,727,700 in FY 2015 for these deferred Basic State Aid payments. Continue to exempt school districts with less than 600 students from the K-12 rollover. Allow the State Board of Education to make the rollover payment no later than July 12, 2015.

- As session law in the General Appropriation Act, continue to require school districts to include in the FY 2015 revenue estimates that they use for computing their FY 2015 tax rates the rollover monies that they will receive for FY 2015 in July 2015.

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

FY 2014 Funding Summary

The JLBC Staff currently estimates that the department will experience a \$10,000,000 shortfall for Basic State Aid and \$(10,000,000) surplus for Additional State Aid for a net change of \$0 for FY 2014. These estimates are based on state aid payment data from December 2013 and are subject to substantial revision as additional information becomes available.

Charter Conversions

The Baseline includes a General Fund increase of \$33,300,000 in FY 2015 for estimated costs of charter conversions (*see "Charter Conversions" policy issue in the Basic State Aid Special Line Item narrative above*). These costs are partly attributable to the fact that current law holds school districts "harmless" for 1 year for declines in their non-charter ADM counts because it funds Basic State Aid on the higher of their current or prior year non-charter ADM counts. It funds all charter ADM (including ADM in district-sponsored charter schools), however, on a current year basis, which means that school districts with charter conversions are funded on a mix of prior and current year ADM counts during their first year of operation. This is causing non-growing districts with "charter conversions" to be funded in FY 2014 for more students than they actually enroll. For example, a district with 1,000 non-charter ADM in FY 2013 that enrolls 100 incoming kindergartners into a newly-converted district sponsored charter school in FY 2014 will be funded under current law in FY 2014 for 1,100 ADM (1,000 from its prior year non-charter count + 100 new charter students), even if it actually enrolls only 1,000 students (900 existing ADM in Grades 1-12 plus 100 new charter school ADM in kindergarten). In this case, individual students are not "double funded," but new kindergartners entering a converted school are funded a year earlier than normal because they are now funded on a "current year" rather than "prior year" basis. (Non-growing districts typically receive Basic State Aid funding based only on their prior year ADM counts.) As a result, the affected district receives funding for 14 total grades (prior year K-12 students plus new current year kindergartners) rather than the normal 13 grades during the first year of a charter conversion. This "early funding" does not occur in rapidly growing districts, as they are funded based on "current year" ADM counts only. It partially affects districts that grow by less than the number of pupils in their converted schools. In the latter case, the same number of kindergartners are "early funded" as if the district was non-growing, but those students offset what otherwise would be an increase in the district's current year non-charter

ADM count for the year, which likewise would generate more funding for the district. (Growing districts initially are funded based on their prior year ADM counts, but later receive additional funding for ADM growth in the current year.)

The cost of funding kindergartners 1 year earlier than normal for non-growing districts under charter conversions will be partially offset in the long run because existing district students who are “converted” will eventually end up being funded for 1 less year (12 rather than 13) because of the charter conversion. An existing district student who is “converted” as a 1st grader, for example, will be counted as a “prior year” kindergartner during their first grade year and as a “current year” student for their second through twelfth grade years for a total of 12 (rather than 13) funded years. The year of foregone funding for such students, however, typically would not occur until the year after the student graduated from high school, which would be many years later for students “converted” during as early elementary school pupils. (Non-growing districts receive funding for prior year seniors [but not their current year kindergartners] even though they have already graduated, since those districts are funded on their “prior year” rather than “current year” ADM counts. Prior year seniors, however, are no longer funded once a school converts to charter status, since charter schools are funded on current year ADM counts only. As a result, non-growing districts forego “Grade 13” funding for existing district students who are “converted” partway through their time in a school district.)

Students who forego a year of funding because of charter conversions nonetheless are expected to increase net state costs over the long run. This is because the roughly \$5,000 in foregone funding from 1 less year being funded for them generally would be more than offset by the additional \$1,000 (roughly) that their school district would receive for each year that they remained in their school district after being converted to charter status. A student who was converted as a 1st grader, for example, would receive approximately \$7,000 more over the course of their time in the school district (11 years X \$1,000 more per year minus \$5,000 foregone cost from funding 12 rather than 13 years = \$7,000 net additional cost).

An additional factor that could increase short-term costs of charter conversions is that current law does not prohibit a school district from converting only part of a school to charter status in “year 1” and then converting all remaining grades to charter status in “year 2.” Under this scenario, students in grades not converted in “year 1” would be funded as both prior year district students and current year charter students in “year 2,” since current law (A.R.S. § 15-185A3a) only prohibits a school district from including existing students in the converted school’s charter ADM “during the first year of the charter school’s operation.” On a related note, it is unclear whether schools that convert only some grades to charter status would be subject to the

repayment penalty for later converting the school back to a non-charter school that otherwise would be required pursuant to A.R.S. § 15-185A7. ADE indicates that in the distant past it interpreted current law in this regard as not applying to “partial conversions.”

Most of the additional cost from charter conversions accrues to the state because “local share” funding from the K-12 QTR and SETR typically does not increase when a school district converts existing schools to charter status. QTR and SETR funding instead is based solely on the size of a school district’s property tax base and the QTR and SETR tax rates themselves, none of which change when a district school is converted into a charter school. Non-state aid districts are an exception, as they have “unused QTR” capacity available to self-fund their own charter conversions. A portion of increased QTR taxes for charter conversions in non-state aid district, however, is funded by the state through the Homeowner’s Rebate. The state, therefore, pays a portion of increased costs for charter conversions even in non-state aid districts.

Current law does not require school districts to provide the state with advance notice of their charter conversion plans for the upcoming budget year. As a result, the number of district schools that will be converted to charter status in FY 2015 will not be known until after the start of that fiscal year.

Achievement Testing

The department will be implementing a new statewide achievement test in FY 2015 (*see narrative for Accountability and Achievement Testing Special Line Item above*). While the new test has not yet been selected, ADE will align it to new “Arizona College and Career Ready” (Common Core) standards adopted by the State Board of Education in December 2010. There is no specific state statutory requirement regarding implementation of the Arizona College and Career Ready (ACCR) standards. The State Board of Education, however, adopted the ACCR standards in December 2010 under powers granted to it by A.R.S. § 15-203. In September 2013, the Governor issued an Executive Order requiring executive agencies to refer to these standards as “Arizona’s College and Career Ready Standards.”

The ACCR standards list knowledge and skills that students are expected to learn each year in English language arts and Math in the 46 states that have adopted Common Core standards in some fashion. As a result, participating states will be able to use common exams and compare test performance of students across states. Prior to the adoption of ACCR standards, Arizona students were instead taught under state-specific academic standards and tested by Arizona Instrument to Measure Standards (AIMS) tests that were not comparable to tests used by other states.

Under AIMS, high school students could not graduate until they had passed AIMS Math, Reading and Writing tests that were administered separately from their high school math and English classes. Under ACCR, the math and English content required for high school graduation will instead be incorporated into “end of courses tests” (final exams) for high school math and English classes themselves. Students therefore will be able to graduate under ACCR if they pass all required classes without having to also pass separate graduation tests. Non-high school students generally will not have to pass annual ACCR exams in order to be promoted to the next grade, as is true under AIMS testing. Students in 3rd Grade, however, will still need to score at better than the “falls far below the 3rd Grade level” on ACCR English language tests in order to be promoted to 4th Grade under Arizona’s “Move on When Reading” law (A.R.S. § 15-701A2a).

High school students through the Class of 2016 will still need to pass the AIMS math, reading and writing tests in order to graduate. As a result, ADE will administer the existing AIMS tests through the spring of 2014 and will continue to make AIMS retests available through December 31, 2016 for students who do not pass all 3 AIMS subject tests during initial attempts. The Class of 2017 and beyond will instead be subject to the new ACCR assessments.

Two different 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 for the 2014-2015 school year. States will be responsible for costs of administering the tests, once developed. Those costs are expected to rise under the new exams because of the more complex nature of their questions and of their subsequent scoring requirements. In addition, although the PARCC and SMARTER Balanced consortia are developing initial versions of the tests, new test questions will need to be continually developed and the cost of that ongoing development will be factored into annual contract costs.

Although Arizona is a member of the PARCC, the state procurement process will determine whether Arizona will use “Common Core” tests developed by PARCC, SMARTER Balanced, or an independent entity. As a result, the cost of the new testing contract is uncertain at this time. In their September budget proposal, ADE requested a \$15,000,000 increase in General Fund funding for the new tests in FY 2015 based on cost estimates developed by PARCC. ADE plans to issue a Request for Information (RFI) for the new testing contract in the fall of 2013 and complete the procurement process during the spring of 2014. Actual contract costs for the new tests

should become known once the procurement process nears completion.

ADE will need to fund both ACCR testing and continued AIMS retesting in FY 2015, since AIMS retesting will continue through 2016, as noted above. ADE estimates that it will cost approximately \$5,000,000 to fund AIMS retests (plus continued AIMS Science testing in Grades 4, 8 and 10) and approximately \$21,750,000 to fund ACCR testing in FY 2015 for a combined testing cost of approximately \$26,750,000. The ACCR estimate assumes that 750,000 students will take ACCR tests in FY 2015 at an average cost of approximately \$29 per pupil based on PARCC estimates. These amounts do not include ADE costs for program administration. With program administration, ADE currently estimates that the Achievement Testing program as a whole will cost \$29,854,600 in FY 2015. This amount would be \$15,000,000 above what ADE expects to spend on the program from all sources (including Federal Funds) for FY 2014. ADE has requested a \$15,000,000 increase from the state General Fund in FY 2015 to address this difference.

Assuming that the state proceeds with ACCR, the amount of new funding needed for achievement testing in FY 2015 will depend primarily on 3 factors: 1) actual contract costs for AIMS and ACCR testing, 2) available federal funding, and 3) available carry forward funding from Proposition 301 (which helps funding testing costs) and other sources. Additional information will be needed regarding each of these items in order to resolve the actual state General Fund level for the program for FY 2015.

In order for ACCR 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 ACCR testing is currently unknown. ADE’s requested \$15,000,000 increase in state General Fund funding for the program for FY 2015 does not include any funding for this issue. ADE indicates, however, that “paper and pencil” versions of ACCR tests will be made available in FY 2015 to school districts and charter schools that lack technology needed for on-line ACCR testing.

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 “District Additional Assistance” overrides (called “Capital Overrides” prior to 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 District Additional

Assistance 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 2014, 102 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 19 had "Special Program" overrides pursuant to A.R.S. § 15-482, and 20 had District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2014 included \$383,661,700 for both types of M&O overrides combined and

\$59,210,200 for District Additional Assistance overrides. (See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.)

A.R.S. § 15-249.04 requires 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.

Transportation Funding

A December 2013 Auditor General performance audit for the McNeal Elementary District indicates that the district transports both its own elementary students and students from a neighboring high school district on the same buses with both districts claiming full transportation funding for their respective students. The report states that there is potential for increased cost to the state if more districts began operating their transportation programs in this manner. The Auditor General indicates that the Legislature may want to consider whether the intent of current law is to allow districts to jointly operate transportation programs but continue to receive full funding as if they were operating those programs separately.

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 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 General Fund.		
Funds Expended	0	0
Year-End Fund Balance	21,000	21,000
Agricultural Youth Organization Special Plate Fund (EDA2650/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	50,000	65,000
Year-End Fund Balance	0	0
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 fund solutions teams assigned to schools pursuant to A.R.S. § 15-241.		
Funds Expended	0	427,100
Year-End Fund Balance	575,900	219,100

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
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	33,700	35,000
Year-End Fund Balance	14,500	22,300
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	332,542,500	404,714,800
Year-End Fund Balance	38,064,900	37,840,300
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 2013 scholarships account transfer was approximately \$5.2 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	62,100	200,000
Year-End Fund Balance	137,900	136,500
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 General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Early Graduation Scholarship Fund (EDA2364/A.R.S. § 15-105L [repealed])		Non-Appropriated
Source of Revenue: Monies deposited into the fund by the Arizona Department of Education pursuant to A.R.S. § 15-105F & J. The Early Graduation Scholarship Fund was repealed by the K-12 Budget Reconciliation Bill (Laws 2013, 1st Special Session, Chapter 3).		
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

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
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	27,000	33,100
Year-End Fund Balance	87,100	76,500
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	191,900	147,200
Year-End Fund Balance	420,500	366,900
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 received 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 received \$5,000,000 in state General Fund monies in FY 2013 (unchanged from FY 2012). For FY 2014, fund monies are administered by the Arizona Department of Administration (ADOA) rather than ADE and Section 115 (G)(2) of the General Appropriation Act appropriates any remaining FY 2013 balance in the fund to the ADOA Automation Projects Fund for use in FY 2014 (<i>see the "Automation Projects Fund" in the Arizona Department of Administration Summary of Funds for more information</i>). 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	0
Non-Appropriated Funds Expended	0	0
Year-End Fund Balance	1,971,700	0
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	2,180,600	1,500,000
Year-End Fund Balance	211,000	211,000
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	1,097,772,000	1,064,672,600
Year-End Fund Balance	2,008,400	1,900,500
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	20,992,300	9,616,200
Year-End Fund Balance	6,300	0
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	205,000	185,000
Year-End Fund Balance	0	5,000

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
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	4,605,700	5,001,900
Year-End Fund Balance	222,900	141,000
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	4,605,900	5,424,700
Year-End Fund Balance	1,445,000	611,300
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	43,089,500	48,909,000
Year-End Fund Balance	36,000	36,100
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	3,023,200	3,697,700
Year-End Fund Balance	563,600	374,100
Performance Incentive Fund (EDA2575/A.R.S. § 15-917)		Non-Appropriated
Source of Revenue: Legislative appropriations from the state General Fund.		
Purpose of Fund: To provide funding to school districts and charter holders based on achievement and improvement on the assigned achievement profile pursuant to A.R.S. § 15-241. Expenditures are not displayed to avoid double counting of the General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	2,400,000
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	46,406,900	46,475,500
Year-End Fund Balance	100	100

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
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	1,506,700	2,098,700
Year-End Fund Balance	1,237,400	1,024,200
Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7)		Partially-Appropriated
(EDA 1015, 1016 & 1017/A.R.S. § 42-5029E5 & E6)		
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	5,221,200	7,000,000
Non-Appropriated Funds Expended	97,422,300	97,569,200
Year-End Fund Balance	11,009,800	7,721,100
Scholarships for Pupils With Disabilities Program Fund		Non-Appropriated
(EDA2534/A.R.S. § 15-891.04)		
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 General Fund.		
Funds Expended	0	0
Year-End Fund Balance	0	0
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	2,202,600	5,080,400
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 General Fund. The K-12 Education BRB (Laws 2013, 1 st Special Session, Chapter 3) requires ADE to transfer \$10,000,000 from the fund to the state General Fund during FY 2014 in order to draw down accumulated balances.		
Funds Expended	0	0
Year-End Fund Balance	8,068,900	0
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	2,100,900	2,359,700
Year-End Fund Balance	0	0

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
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	95,000	100,000
Year-End Fund Balance	260,300	163,800