

Department of Education

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	175.9	164.9	164.9
Personal Services	4,543,100	5,297,300	5,421,300
Employee Related Expenditures	1,648,500	1,929,300	1,975,700
Professional and Outside Services	398,400	135,300	1,244,600
Travel - In State	19,700	22,600	24,600
Travel - Out of State	16,700	12,500	14,000
Other Operating Expenditures	1,888,600	1,301,300	2,177,300
Equipment	842,500	77,400	1,118,200
OPERATING SUBTOTAL	9,357,500	8,775,700	11,975,700
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,341,523,300	3,621,149,600	3,714,100,100
State Aid Supplement	0	50,000,000	50,000,000
Additional Inflation	0	0	0
K-3 Reading	40,005,400	39,917,300	0
School Year 2013-2014 School District Charter School Conversions	24,500,000	0	0
Student Success Funding	18,746,600	0	0
Special Education Fund	33,242,100	32,242,100	32,242,100
Other State Aid to Districts	181,500	983,900	983,900
Property Tax Relief			
Additional State Aid - Homeowner's Rebate	354,994,900	359,303,700	390,292,000
Additional State Aid - 1% Cap	7,407,200	7,380,300	7,380,300
Non-Formula Programs			
Accountability and Achievement Testing	11,223,700	16,422,400	16,422,400
Adult Education	4,486,900	4,500,000	4,500,000
Alternative Teacher Development Program	0	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
English Learner Administration	6,451,100	6,507,900	6,507,900
Information Technology Certifications	1,000,000	0	0
JTED Performance Pay	500,000	0	0
JTED Soft Capital and Equipment	0	1,000,000	1,000,000
School Safety Program	4,125,800	3,646,500	3,646,500
State Block Grant for Vocational Education	11,575,400	11,560,900	11,560,900
Student Success Fund Deposit	22,400,000	0	0
Teacher Certification	1,656,100	1,834,500	1,834,500
Technology-Based Language Development and Literacy Intervention Pilot Program	0	246,800	0
Tribal College Dual Enrollment Program Fund	0	0	160,000
State Board of Education			
State Board of Education	1,036,500	0	0
AGENCY TOTAL	3,899,374,400	4,170,932,000	4,258,066,700
FUND SOURCES			
General Fund	3,831,124,100	3,941,873,900	4,026,031,700
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	200,100	399,000	399,000

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 BASELINE
FUND SOURCES			
Department of Education Professional Development Revolving Fund	777,700	0	2,700,000
Permanent State School Fund	46,475,500	219,440,500	219,804,200
Proposition 301 Fund	0	7,000,000	7,000,000
Student Success Fund	18,746,600	0	0
Teacher Certification Fund	2,050,400	1,971,800	1,971,800
Technology-Based Language Development and Literacy Intervention Fund	0	246,800	0
Tribal College Dual Enrollment Program Fund	0	0	160,000
SUBTOTAL - Other Appropriated Funds	68,250,300	229,058,100	232,035,000
SUBTOTAL - Appropriated Funds	3,899,374,400	4,170,932,000	4,258,066,700
Other Non-Appropriated Funds	521,847,700	593,607,700	593,607,700
Federal Funds	1,135,613,800	1,175,376,900	1,175,376,900
TOTAL - ALL SOURCES	5,556,835,900	5,939,916,600	6,027,051,300

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2017 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

In October 2015, Laws 2015, 1st Special Session, Chapters 1 and 2 were enacted into law, with Chapter 1 being conditional upon voter approval of Proposition 123 in May 17, 2016. This legislation would increase the per pupil “base level” in the Basic State Aid formula by \$173.26 beginning in FY 2016, fund part of the cost of that increase through higher land trust distributions through FY 2025, and appropriate monies for “Additional Funding” (“State Aid Supplement”) through FY 2025.

This narrative assumes passage of Proposition 123. If it does not pass, the \$173.26 base level increase will not occur and monies for “Additional Funding” would not be appropriated. (See *Other Issues for more information.*)

ADE’s FY 2017 General Fund Baseline spending would increase by \$84,157,800, or 2.1%. The Baseline includes the following changes:

- A decrease of \$(2,400,000) for a base adjustment for higher-than-budgeted savings from multisite charter small school weight reductions in FY 2016.
- An increase of \$83,575,700 for 1.4% Average Daily Membership (ADM) growth in FY 2017.
- An increase of \$19,500,000 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$64,745,200 for a 1.15% inflator.

- A decrease of \$(43,194,700) for local property tax growth due to new construction offset by Homeowner’s Rebate impact of \$4,859,700.
- An increase of \$26,128,600 for higher Homeowner’s Rebate costs due to recent statutory changes.
- A decrease of \$(1,893,000) to eliminate remaining district-sponsored charter schools.
- A decrease of \$(6,500,000) for small school weight for multisite charter phase out.
- A decrease of \$(31,000,000) to eliminate a 1-year hold harmless for school district ADM declines.
- A decrease of \$(30,000,000) for reductions in Base Support Level (BSL) funding for students who attend Joint Technical Education Districts (JTEDs).
- An increase of \$700,000 for Empowerment Scholarship Accounts (ESAs).
- A decrease of \$(363,700) to offset higher available endowment earnings under Proposition 123.

As part of the Baseline’s 3-year spending plan, ADE General Fund costs are projected to increase by \$137,569,200 in FY 2018 above FY 2017 and \$123,564,300 in FY 2019 above FY 2018. (See *Other Issues for more information.*)

Operating Budget

The Baseline includes \$11,975,700 and 95.8 FTE Positions in FY 2017 for the operating budget. These amounts consist of:

Table 1

FY 2017 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2016 Appropriation (original)	\$3,324,960,700
FY 2016 "Additional Inflation" transfer	74,394,000
FY 2016 Supplemental (special session)	<u>2,354,400</u>
FY 2016 Appropriation (revised)	\$3,401,709,100
Base Adjustment for multisite charter weights	\$ (2,400,000)
Enrollment Growth @ 1.4%	83,575,700
Higher Average Cost Per Pupil	19,500,000
1.15% Inflator	64,745,200
Property Taxes from New Construction	(43,194,700)
Endowment Earnings	(363,700)
Eliminate Hold Harmless for Enrollment Losses	(31,000,000)
JTED 7.5% Reduction	(30,000,000)
Multisite Charter Small School Weights	(6,500,000)
Eliminate District Sponsored Charter Schools	(1,893,000)
Move K-3 Reading Funding	39,417,300
Empowerment Scholarship Accounts	<u>700,000</u>
FY 2017 Baseline	\$3,494,295,900
Permanent State School Fund	
FY 2016 Original	\$ 47,359,500
FY 2016 Special Session Increase	<u>172,081,000</u>
FY 2016 Revised	\$ 219,440,500
Estimated FY 2017 Growth	<u>363,700</u>
FY 2017 Baseline	\$ 219,804,200
Prop 301 Sales Tax (no change) ^{1/}	\$ 86,280,500
Local Property Taxes ^{1/}	
FY 2016 Base - estimated	\$2,402,376,400
Property Taxes from New Construction	43,194,700
Non-State Aid Formula Changes	13,425,700
Non-State Aid Eliminate Hold Harmless	<u>(9,000,000)</u>
FY 2017 Baseline ^{2/}	<u>\$2,449,996,800</u>
Grand Total (all sources) ^{3/}	\$6,250,377,400

- ^{1/} Non-appropriated, so excluded from appropriated totals.
- ^{2/} An estimated \$401,071,200 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
- ^{3/} Statutory formula cost would be approximately \$401,846,100 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are assumed to continue in the Baseline on a session law basis, including the impact on non-state aid districts.

Enrollment Growth GF 83,575,700

The Baseline includes an increase of \$83,575,700 from the General Fund in FY 2017 for enrollment growth. This assumes that K-12 ADM will increase by 1.4% in FY 2017 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Table 2

K-12 ADM (unweighted) ^{1/}

Fiscal Year	District ^{2/}	Charter ^{3/}	Total	Change	% Change
2010	936,594	110,231	1,046,825	4,542	0.4%
2011	914,952	119,321	1,034,273	(12,552)	(1.2)%
2012	909,530	131,993	1,041,523	7,250	0.7%
2013	910,476	140,199	1,050,675	9,152	0.9%
2014	913,313	152,158	1,065,471	14,796	1.4%
2015	917,913	159,032	1,076,945	11,474	1.1%
2016 est	923,660	167,868	1,091,528	14,583	1.4%
2017 est	929,732	176,725	1,106,457	14,929	1.4%
2018 est	935,893	185,612	1,121,505	15,048	1.4%
2019 est	942,100	194,604	1,136,704	15,199	1.4%

- ^{1/} Actuals for FY 2010 through FY 2015 are from ADE payment data. Figures shown for FY 2014 and FY 2015 have been adjusted by JLBC Staff in an attempt to compensate for data anomalies caused by charter conversions for those fiscal years. 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 19,500,000

The Baseline includes an increase of \$19,500,000 from the General Fund in FY 2017 for growth in the average Basic State Aid cost per pupil for FY 2017. The average cost per pupil increases annually 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 \$19,500,000 estimate includes \$9,000,000 for charter school pupils and \$10,500,000 for special education students in FY 2017. The charter estimate assumes that board-sponsored charter schools will continue to grow by approximately 9,000 ADM in FY 2017 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 increase by approximately 3,000 ADM in FY 2017 (see Table 3) and an average per pupil base level "add on" of \$3,500 (3,000 X \$3,500 = \$10,500,000). The assumed \$3,500 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.

Table 3

Special Education ADM (weighted) ^{1/}

Fiscal Year	Districts	Charters	Total	Change	% Change
2010	83,450	4,104	87,554	3,004	3.6%
2011	88,633	5,189	93,822	6,268	7.2%
2012	92,738	5,858	98,596	4,774	5.1%
2013	95,887	6,522	102,409	3,813	3.9%
2014	95,024	7,698	102,722	313	0.3%
2015	106,217	9,124	115,341	12,619	12.3%
2016 est	108,979	9,362	118,341	3,000	2.6%
2017 est	111,736	9,605	121,341	3,000	2.5%
2018 est	114,495	9,846	124,341	3,000	2.5%
2019 est	117,254	10,087	127,341	3,000	2.4%

^{1/} Actuals for FY 2010 through FY 2015 are from ADE payment data. Excludes "Group B" category that only receives funding weight of 0.003 (295 additional "weighted" students for FY 2015) and students enrolled at ASDB.

1.15% Inflation Adjustment GF 64,745,200

The Baseline includes an increase of \$64,745,200 from the General Fund in FY 2017 for a 1.15% 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. A 1.15% inflation adjustment would result in a base level of \$3,654.00 per pupil for FY 2017 versus \$3,600.00 for FY 2016.

The FY 2016 base level originally was \$3,426.74 per pupil, as established by the FY 2016 K-12 Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15). Laws 2015, 1st Special Session, Chapter 1 from the October 2015 Special Session, however, would change the base level to \$3,600.00 per pupil for FY 2016 if voters approve Proposition 123 in May 2016. (See *Other Issues for more information regarding the October 2015 Special Session and Proposition 123.*)

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 2017 adjustment is 1.15%, which equals the currently projected GDP price deflator for calendar year 2015. 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. (See the *FY 2016 Appropriations Report for background information regarding the related Cave Creek, et. al. v Ducey lawsuit.*)

Property Taxes from New Construction GF (43,194,700)

The Baseline includes a decrease of \$(43,194,700) from the General Fund in FY 2017 due to a projected 1.8% increase in statewide Net Assessed Value (NAV) from new construction in FY 2017. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR)

and State Equalization Tax Rate (SETR) by an estimated \$43,194,700 in FY 2017. It also will decrease state costs by \$(43,194,700), 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 1.7% in FY 2016, resulting in a net 3.5% NAV increase for new construction and existing property combined for FY 2017.

The projected 1.7% NAV increase for existing property will not affect net QTR or SETR collections in FY 2017 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 \$4.12 (from \$4.20 currently) and the SETR will decrease to \$0.4967 (from \$0.5054 currently) in FY 2017 in order to offset the estimated 1.7% NAV increase for existing property (see *Table 4*).

Table 4

TNT Tax Rates

Tax Rate	FY 2016	FY 2017
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.0977	\$2.0617
• Unified districts and elementary districts not located within a high school district	\$4.1954	\$4.1234
• State Equalization Tax Rate (SETR)	\$0.5054	\$0.4967

On a related note, Proposition 117 from the November 2012 General Election, caps annual growth in property values at 5% starting in FY 2016. (See the *FY 2016 Appropriations Report for more information.*)

Endowment Earnings GF (363,700) OF 363,700

The Baseline includes a decrease of \$(363,700) from the General Fund and increase of \$363,700 from the Permanent State School Fund in FY 2017 for endowment earnings funding for Basic State Aid. This assumes that K-12 endowment earnings from the State Land Department and State Treasurer combined under Proposition 123 will equal \$219,804,200 for FY 2017, which would be \$363,700 more than the \$219,440,500 total assumed for FY 2016 (see *Table 5*).

Table 5

Estimated K-12 Endowment Earnings for Basic State Aid ^{1/}

Source	FY 2016	FY 2017	Change
Original 2.5% ^{2/}	\$47,359,500	\$47,359,500	\$0
New 4.4% ^{2/}	<u>172,081,000</u>	<u>172,444,700</u>	<u>363,700</u>
Total	\$219,440,500	\$219,804,200	\$363,700

^{1/} K-12 Endowment Earnings also help fund School Facilities Board debt service and the Classroom Site Fund (see *Table 9*).
^{2/} The October 2015 Special Session increased the state trust land distribution percentage in the State Constitution from 2.5% to 6.9% (an increase of 4.4%) if voters approve Proposition 123 in May 2016.

being interpreted as entitling former DSCS districts to unintended District Additional Assistance growth funding. (See *Statutory Changes* section for more information.)

Transfer K-3 Reading Monies GF 39,417,300

The Baseline includes an increase of \$39,417,300 from the General Fund in FY 2017 to move K-3 Reading funding from a separate line item to Basic State Aid. This would incorporate funding for the K-3 Reading Group B weight into Basic State Aid, which is the historical practice for all other formula weights.

In addition, current practice does not display the full cost of the weight, as the annual appropriation to the K-3 Reading program only reflects the initial cost of the weight when it was created in FY 2013. Since then, enrollment growth and inflation have increased its cost by approximately \$5,560,000 through FY 2016, which has been funded through Basic State Aid as part of annual increases provided to that program for enrollment growth and inflation for the formula as a whole. The estimated \$5,560,000 cost increase for the program reflects 3.8% enrollment growth and 10.1% base level growth since FY 2013, including the base level reset from the October 2015 special session (\$40,000,000 initial cost X (3.8% + 10.1%) = \$5,560,000).

The Baseline also would transfer \$500,000 and 2 FTE Positions from the K-3 Reading program to the department’s operating budget for continued administration of the statewide K-3 Reading program. (See the *Operating Budget narrative* for more information.)

Rollover GF 0

The Baseline includes no change from the General Fund in FY 2017 for the K-12 rollover. This would continue to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2017) state aid payments until the following fiscal year (now FY 2018).

The FY 2017 rollover would affect only school districts with more than 600 students, as has been the policy since FY 2013. The Baseline would continue to exempt small districts from the K-12 rollover in FY 2017, which would continue it at the \$930,727,700 level.

As a result of the continuing rollover, the 12 monthly payments that “large” school districts receive in FY 2017 would again consist of approximately 4.5 months of deferred payments from the prior year and 7.5 (rather than 12) payments from the current year. Laws 2015, Chapter 8 advance appropriated \$930,727,700 from the General Fund in FY 2017 in order to fund the \$930,727,700 deferred obligation from FY 2016. Those monies, therefore, will not

appear in the FY 2017 General Appropriation Act. The Act, however, would advance appropriate \$930,727,700 from the General Fund in FY 2017 in order to fund the deferred FY 2016 obligation.

A continued \$930,727,700 rollover for FY 2017 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.

Additional Assistance

Suspensions GF 0

The Baseline includes no change from the General Fund in FY 2017 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) statutory funding formulas. This would continue to suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2017.

School districts will receive an estimated \$59,428,200 in DAA funding in FY 2017, plus an estimated \$5,000,000 self-funded by non-state aid districts, based on FY 2014 actuals. Without the continuing suspension they instead would receive an estimated \$411,870,900 in DAA funding, plus an estimated \$33,626,900 self-funded by non-state aid districts. DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts (if fully funded) of \$450.76 to \$601.24 per pupil depending on the pupil’s grade level and the size of their school district.

As in prior years, the Baseline would continue BRB language requiring non-state aid districts to reduce their budgets by the amount that their state aid would be reduced under continuing DAA suspensions if they did qualify for state aid. The Baseline, however, would discontinue language extending this requirement to CAA reductions for non-state aid districts that have district-sponsored charter schools, since the Baseline would eliminate all district-sponsored charter schools after FY 2016. Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes only because of their strong local property tax base.

The FY 2017 K-12 Education BRB also would continue to cap total statewide DAA reductions for school districts with fewer than 1,100 students at \$5,000,000 for FY 2017.

Empowerment Scholarship

Accounts GF 700,000

The Baseline includes an increase of \$700,000 from the General Fund in FY 2017 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized

by A.R.S. § 15-2402. This assumes that approximately 130 non-special education students who otherwise would attend private school (primarily incoming Kindergartners who live within the boundaries of a “D or F” school) will receive ESAs in FY 2017 (130 students X \$5,100 estimated average ESA cost for non-disabled pupils ≈ \$700,000). It also assumes that all other categories of new ESA students (such as disabled students who formerly attended school district or charter schools, and non-disabled students, such as from military families, who also qualify for ESAs) collectively would result in no net new cost based on formula modeling.

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 primarily with Basic State Aid monies that a school district or charter school otherwise would have received for a student if they had remained in public school.

The program is open to Arizona resident students who meet at least one of the requirements listed below in addition to being either a full-time Arizona public school student in the prior year, a displaced or disabled School Tuition Organization (STO) scholarship recipient in the prior year, or an incoming kindergartner:

- A child with a disability.
- A child who is a ward of the juvenile court and is residing in prospective permanent placement foster care.
- A child who is a ward of the juvenile court and who achieved permanency through adoption.
- A child who is the sibling of a current ESA recipient.
- A child who attended a failing school in the prior year.
- An incoming Kindergartner who resides within the boundaries of a failing school.
- A child with an active duty military parent.
- A child who resides on an Arizona Indian reservation

(Please see the FY 2015 Appropriations Report for historical information on changes in program eligibility.)

Laws 2013, Chapter 250 caps the number of new ESAs approved by the department each year at 0.5% of total public school enrollment through calendar year 2019, or approximately 5,500 new students annually. Current ESA growth is substantially below this level, as the 2,175 ESAs approved for FY 2016 represent an increase of only 864 net students above the FY 2015 level (*see Table 6*).

Table 6

Empowerment Scholarship Account Data ^{1/}

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015	1,311	\$17,333,700
FY 2016 (est)	2,175	\$27,100,000
FY 2017 (est)	3,039	\$37,865,900

^{1/} Figures shown for FY 2012 through FY 2016 are from ADE as of November 2015. FY 2017 estimates are from the JLBC Staff based on historical data. “Total Awards” represent estimated ESA allocations rather than the net General Fund impact of the program after related Basic State Aid savings are deducted. The latter amount is unknown because it would depend in part on where individual ESA recipients would have attended school apart from the program, which is unknown.

Chapter 250 also amended the funding formula for the ESA program to include “. . . an amount that is equivalent to ninety percent of the sum of the base support level and additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that student were attending a charter school.” The impact of this change has been unclear due to varying interpretations of the enacted language.

Since FY 2015, however, the department has interpreted it as providing 90% of charter additional assistance to all ESA recipients, including those who did not previously attend charter schools. ADE has estimated that this change causes ESAs to cost about 9% more than apart from this policy, which would be approximately \$2,439,000 for FY 2016 (\$27,100,000 estimated ESA cost for FY 2016 [from Table 6] X 9% = \$2,439,000).

Table 6 shows historical and projected data for the ESA program. For FY 2016, ADE estimates that 2,175 students are receiving \$27,100,000 in ESA funding. This represents an increase of 864 students, which is the same increase assumed in *Table 6* for FY 2017 (2,175 students assumed for FY 2016 minus 1,311 assumed for FY 2015 = 864 student increase). Of the 864 new assumed ESA students for FY 2017, an estimated 130 would increase state costs.

A.R.S. § 15-2402C authorizes the department to retain for administration up to 5% of the 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 \$399,000 to ADE from the Department of Education Empowerment Scholarship Account Fund (A.R.S. § 15-2402D) in FY 2017 for program administration (unchanged from FY 2016) (*see agency Operating Budget narrative*). The Baseline also would continue to appropriate \$79,700 from the State Treasurer Empowerment Scholarship Account Fund in FY 2017 for ESA program administration (also

State Board of Education (SBE) budget for FY 2016 in order to fund continuing SBE responsibilities for the program. (See the FY 2016 Appropriations Report for more information.)

Special Education Fund

The Baseline includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2017 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2016.

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 2017 for Other State Aid to Districts. This amount is unchanged from FY 2016.

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.

Property Tax Relief

Additional State Aid - Homeowner's Rebate

The Baseline includes \$390,292,000 from the General Fund in FY 2017 for the Additional State Aid (ASA) - Homeowner's Rebate line item. FY 2017 adjustments would be as follows:

New Homes **GF** **4,859,700**

The Baseline includes an increase of \$4,859,700 from the General Fund in FY 2017 for increased Homeowner's Rebate costs associated with new home construction. The \$4,859,700 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 2017 and that approximately 45.0% of the QTR taxes owed by new homes will be paid by the state through the Homeowner's Rebate.

Property Tax - Statutory

Changes **GF** **5,598,000**

The Baseline includes an increase of \$5,598,000 from the General Fund in FY 2017 to offset an anticipated increase in Homeowner Rebate costs for FY 2017 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. It also reduces the assessment ratio on agricultural property from 16% to 15% in FY 2017. These changes will reduce statewide property values for commercial and agricultural property in FY 2017. This will cause the statewide property tax base to be smaller in FY 2017 than it otherwise would be and Truth in Taxation would otherwise require the K-12 QTR to be increased accordingly. The latter change would increase the amount of QTR taxes paid by homeowners, which would increase Homeowner's Rebate costs by an estimated \$5,598,000 in FY 2016.

In addition, Chapter 1 increases the rebate percentage for the Homeowner's Rebate in order to also hold homeowners harmless for increases in tax rates for taxes other than the QTR that otherwise would occur under Chapter 1 to compensate for the lower commercial property assessed value. This could include tax rates for school bonds and overrides and for non-school taxes, such as for cities, counties and community colleges.

In combination, the higher TNT QTR and the rebate percentage change (described separately below) will cost an estimated \$26,128,600 in FY 2017.

Increased Rebate Percentage **GF** **20,530,600**

The Baseline includes an increase of \$20,530,600 from the General Fund in FY 2017 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 rate increases that otherwise would occur in those years due to reduced assessment ratios for commercial property. Unlike the \$5,598,000 cost associated with the higher statewide QTR, the \$20,530,600 reflects the cost of the higher rebate percentage associated with keeping homeowner local property taxes from increasing.

For FY 2016, DOR increased the rebate percentage to 45.003% versus 43.559% in FY 2015. The currently estimated cost of the required rebate percentage increase for FY 2017 is \$20,530,600, which would reflect a rebate percentage of roughly 47.5%. DOR is not expected to determine the actual rebate percentage for FY 2017 until the summer of 2016.

Background – The Additional State Aid program authorized by A.R.S. § 15-972 primarily pays a portion of each homeowner’s school district primary property taxes, up to a maximum of \$600 per parcel.

Additional State Aid - 1% Cap

The Baseline includes \$7,380,300 from the General Fund in FY 2017 for the Additional State Aid - 1% Cap line item. This amount is unchanged from FY 2016.

The General Appropriation Act for FY 2016 appropriated monies for the 1% cap into a separate line item for the first time that year for greater transparency. In addition, the FY 2016 K-12 Education BRB amended A.R.S. § 15-972 in order to cap state costs for the 1% cap at a maximum of \$1,000,000 per county. The FY 2016 K-12 BRB requires the Property Tax Oversight Commission (PTOC) to allocate the loss of state 1% cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% cap exceedance.

The FY 2016 budget assumed a General Fund savings of \$(20,219,700) for the new \$1,000,000 limit on 1% Cap costs per county. The amount of Additional State Aid that DOR instructed the Department of Education to distribute to each school district for FY 2016 pursuant to A.R.S. § 15-972H, however, did not reflect the intended savings because DOR indicates that statute is not clear regarding how the related reductions would be allocated. As a result, it is unclear whether the intended savings will be captured for FY 2016 without the enactment of clarifying legislation. (See *Other Issues for more information regarding 1% Cap Implementation.*)

Background – The Additional State Aid program funds the Homeowner’s Rebate and 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 pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary property taxes at no more than 1% of a home’s full cash value and was added to the State Constitution in 1980. It applies any time a homeowner’s net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner’s Rebate is applied.

In practice, the 1% cap has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates in

order to keep their combined primary rate below \$10 per \$100 of NAV. The related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

Beginning in FY 2016, A.R.S. § 15-972K requires all taxing jurisdictions that contribute to an exceedance of the 1% cap, as determined by the Property Tax Oversight Commission (PTOC), to share in the excess cost after the state pays a maximum of \$1,000,000 in 1% cap funding per county. (See the FY 2016 Appropriations Report for more information.)

Non-Formula Programs

Accountability and Achievement Testing

The Baseline includes \$16,422,400 and 2 FTE Positions in FY 2017 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,422,400
Proposition 301 Fund	7,000,000

These amounts are unchanged from FY 2016.

Background – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. The State Board of Education awarded the initial contract for this new test in November 2014. ADE reports that it cost \$19,599,600 to administer AzMERIT in FY 2015 and that it will cost \$18,555,700 and \$18,439,200 to administer it in FY 2016 and FY 2017, respectively.

	FY 2016	FY 2017
Estimated Costs ^{1/}		
AzMERIT	\$19.0	\$18.4
AIMS Science Testing	2.8	2.8
Alternative Special Needs Exam	0.5	0.7
Test Security	1.0	0.7
Information Technology Support	0.7	0.8
Staff and Administration	<u>2.2</u>	<u>2.7</u>
Total	\$26.2	\$26.1
Estimated Available Funding ^{1/}		
General Fund	\$9.4	\$9.4
Proposition 301 - School Accountability ^{2/}	9.2	5.5
Federal Funds	<u>7.6</u>	<u>7.5</u>
Total	\$26.2	\$22.4

^{1/} ADE estimates for FY 2017 are preliminary. Estimates for both years exclude monies for funding the AZELLA test for English Learners, as it is funded separately through the English Learner Administration line item.

^{2/} Includes carry-forward monies in FY 2016. Up to \$7.0 M potentially could be devoted to Achievement Testing in FY 2017.

The Achievement Testing program, however, includes components other than AzMERIT testing. It also includes AIMS Science Tests, alternative exams for special needs students, test security costs, information technology support and program administration. ADE currently estimates that the cost of all of these other functions and AzMERIT combined at \$26,092,000 in FY 2017 (*see Table 7*). This excludes costs for administering the AZELLA test for English Learners, which is funded separately through the English Learner Administration line item. (*See English Learner Administration line item for more information.*)

The Baseline would continue an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs.

This 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.

Laws 2015, Chapter 76, prohibits the department from assigning letter grades to schools for FY 2015 and FY 2016 based on achievement testing scores. It also prohibits using a pupil’s achievement testing scores as a factor in determining their letter grade in any course in school years 2014-2015 and 2015-2016.

(See Other Issues in FY 2016 Appropriations Report for more information regarding AzMERIT testing.)

Adult Education

The Baseline includes \$4,500,000 and 2 FTE Positions from the General Fund in FY 2017 for Adult Education. These amounts are unchanged from FY 2016.

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 2016, a total of 24 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$9,359,800 in federal funding in FY 2016. Its federal monies are subject to non-supplanting and maintenance-of-effort requirements stipulated in federal law.

Alternative Teacher Development Program

The Baseline includes \$500,000 from the General Fund in FY 2017 for an Alternative Teacher Development Program. This amount is unchanged from FY 2016.

The program is authorized by A.R.S. § 15-552, which requires the establishment of an alternative teacher development program for accelerating the placement of highly qualified individuals into low income schools. Monies in the line item are distributed to the Teach for America program.

Arizona Structured English Immersion Fund

The Baseline includes \$4,960,400 from the General Fund in FY 2017 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2016.

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 \$3,140,200 to public schools from the fund in FY 2015.

English Learner Administration

The Baseline includes \$6,507,900 and 15.5 FTE Positions from the General Fund in FY 2017 for English Learner Programs. These amounts are unchanged from FY 2016.

The program is responsible for administering the Arizona English Language Learner Assessment (“AZELLA”) test, which is used to determine whether a student should be classified as an “English Language Learner” (ELL) as defined in A.R.S. § 15-901B9. Students who are classified as ELLs are required to enroll in English language education programs prescribed by A.R.S. §§ 15-751, 15-752 and 15-753 and qualify for ELL weight funding authorized in A.R.S. § 15-943. Approximately 125,500 students are expected to take the AzELLA in FY 2016, including 47,500 for initial testing and 78,000 for retesting to see if they should continue to be classified as ELLs.

For FY 2017, the department estimates that it will need approximately \$1,000,000 in additional AZELLA funding in order to replace current test questions. (*See Other Issues for additional information.*)

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 it. Plaintiffs appealed the federal judge's ruling, but in June 2015 the federal appellate court upheld the earlier dismissal. In June 2015 the plaintiff attorneys asked for a rehearing in the case. (See FY 2011 Appropriations Report for additional history on this issue.)

The line item 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.

JTED Soft Capital and Equipment

The Baseline includes \$1,000,000 from the General Fund in FY 2017 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2016.

A footnote in the General Appropriation Act for FY 2016 requires the department to distribute the appropriated amount to JTEDs with fewer than 2,000 ADM pupils on a pro rate basis for soft capital and equipment expenses. The Baseline would continue that footnote for FY 2017.

School Safety Program

The Baseline includes \$3,646,500 and 1.2 FTE Positions from the General Fund in FY 2017 for the School Safety program. These amounts are unchanged from FY 2016. The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. (See the FY 2015 Appropriations Report for program history.)

The FY 2016 K-12 Education BRB requires \$100,000 of the \$3,646,400 appropriation to be used for a pilot program on school emergency readiness. The FY 2016 K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2016 program by November 1, 2016. The Baseline would continue these 2 BRB provisions.

The FY 2015 K-12 Education BRB required the department to submit a report that summarizes the results of the FY 2015 program by November 1, 2015. That report indicated that the 3 school districts that participated in the pilot program in FY 2015 (Sunnyside Unified, Prescott Unified and Payson Unified) accomplished the following: 1) improved emergency management functions and aspects of school emergency response plans, 2) enhanced coordination and collaboration of internal district emergency planning team with community response partners, 3) trained staff on emergency operations plans, supported by exercises and drills, and 4) provided the

Arizona Critical Terrorism Information Center (ACTIC) with relevant school infrastructure information.

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 2015 was the first 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 \$11,560,900 and 26.3 FTE Positions from the General Fund in FY 2017 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2016.

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 \$1,834,500 and 21.1 FTE Positions from the Teacher Certification Fund in FY 2017 for Teacher Certification. These amounts are unchanged from FY 2016.

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.

The Baseline also would continue to include \$379,800 (unchanged) from the Teacher Certification Fund in FY 2017 to the State Board of Education to investigate allegations of immoral or unprofessional behavior by teachers and other certificated school personnel. (See State Board of Education budget for more information.)

The board therefore continues to receive funding and perform duties pertaining to certification investigations,

while the department continues to receive funding and perform duties pertaining to certification processing.

Technology-Based Language Development and Literacy Intervention Pilot Program

The Baseline includes no funding from the Technology-Based Language Development and Literacy Intervention Fund in FY 2017 for the Technology-Based Language Development and Literacy Intervention Pilot Program. FY 2017 adjustments would be as follows:

Remove One-Time Funding OF (246,800)

The Baseline includes a decrease of \$(246,800) from the Technology-Based Language Development and Literacy Intervention Fund in FY 2017 in order to remove one-time funding for the program. The Baseline, however, would make an unspent \$300,000 appropriation for the program for FY 2015 non-lapsing through FY 2017, which would make \$300,000 available to the program in FY 2017. The Baseline also would make the program's \$246,800 appropriation for FY 2016 non-lapsing through FY 2018, making those monies available to fund program costs in FY 2018. (See *Statutory Changes section for more information.*)

The FY 2015 K-12 Education BRB (Laws 2014, Chapter 17) established a 2-year pilot program on Technology-Based Language Development and Literacy Intervention to be funded through a new Technology-Based Language Development and Literacy Intervention Fund authorized by A.R.S. § 15-217H. The pilot program was to take place in FY 2015 and FY 2016, but ADE indicates that it did not begin in FY 2015 because the State Board of Education did not award the vendor contract for it until August 2015. As a result, program monies that were appropriated for FY 2015 went unused.

In addition, ADE now plans to start the program in FY 2017, rather than partway through FY 2016, so the program's FY 2016 appropriation of \$246,800 also will go unused. The Baseline therefore proposes to amend Chapter 17 in order to extend the program through FY 2018. The extended program would be funded by making the original \$300,000 appropriation for FY 2015 non-lapsing through FY 2017 and the \$246,800 appropriation for FY 2016 non-lapsing through FY 2018, as described above. (See *Statutory Changes section for more information.*)

Chapter 17 required the Commission for Postsecondary Education to transfer \$546,800 from the Commission for Postsecondary Education IGA/ISA Fund into the new fund by August 1, 2014 in order to help fund the pilot program. The \$546,800 amount consisted of unused funding from

the now-eliminated Early Graduation Scholarship Program (formerly established by A.R.S. § 15-105).

As originally enacted, Chapter 17 also required the Department of Education to transfer \$53,200 in state General Fund funding from its Accountability and Achievement Testing program to the Technology-Based Language Development and Literacy Intervention Fund by August 1, 2014, which would have provided \$600,000 in total funding for the 2-year pilot. In 2014, the Governor, however, vetoed the latter provision. As a result, the program has \$(53,200) less in funding available over 2 years than was originally intended.

The program seeks to promote English language development and literacy for public school pupils in Grades K-6.

Tribal College Dual Enrollment Program Fund

The Baseline includes \$160,000 from the Tribal College Dual Enrollment Program Fund in FY 2017 for the Tribal College Dual Enrollment Program Fund program. This amount funds the following adjustments:

Funding Adjustment OF 160,000

The Baseline includes an increase of \$160,000 from the Tribal College Dual Enrollment Program Fund in FY 2017 for the Tribal College Dual Enrollment Program Fund program.

The FY 2016 Higher Education BRB (Laws 2015, Chapter 16) establishes the Tribal College Dual Enrollment Program Fund to be administered by the Department of Education (A.R.S. § 15-244.01). The fund compensates tribal colleges for tuition and fees that they waive for high school students who are dual enrolled in tribal college classes. It annually receives 15% of unclaimed lottery prize monies up to \$160,000, subject to legislative appropriation, pursuant to A.R.S. § 5-568, plus any other appropriations, gifts, grants, devices and other contributions.

The FY 2016 budget did not appropriate any monies from the fund for FY 2016. The Baseline, however, proposes appropriating \$160,000 in supplemental funding from it for FY 2016. The Baseline would maintain program funding at the proposed \$160,000 level for FY 2017.

(See *Arizona State Lottery Commission narrative for more information on lottery funding.*)

State Board of Education

State Board of Education

The Baseline includes no funding for FY 2017 for the State Board of Education, as the Board is now budgeted as a separate state agency. (See the FY 2016 Appropriations Report for more information.)

* * *

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.

The appropriation from the Department of Education Empowerment Scholarship Account Fund includes \$100,000 in funding for one-time information technology changes.

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 \$219,804,200 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2017 EXCEPT THAT IF PROPOSITION 123 IS NOT APPROVED BY VOTERS THE AMOUNT OF EXPENDABLE INCOME DERIVED FROM THE PERMANENT STATE SCHOOL FUND AND FROM STATE TRUST LANDS PURSUANT TO A.R.S § 37-521B FOR FY 2017 INSTEAD SHALL BE \$47,359,500.

Monies derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid shall be expended, whenever possible, before the 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, income from the investment of permanent state school 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 may not be made except as specifically authorized above.

Achievement Testing

Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review.

English Learner Administration

The Department of Education shall use the appropriated amount 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.

JTED Soft Capital and Equipment

The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts.

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 is due 30 days after the end of the applicable reporting period.

Within 15 days after 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.

New Footnotes

The amount appropriated for the department's operating budget includes \$500,000 for technical assistance and state level administration of the K-3 Reading program established by A.R.S. § 15-211.

The amount appropriated for Basic State Aid from the Permanent State School Fund for FY 2017 shall be reduced by \$172,444,700 if Proposition 123 is not approved by voters.

Deletion of Prior Year Footnotes

The Baseline would delete the General Appropriation Act footnote concerning the allocation of Additional Funding (now "State Aid Supplement") monies, as Additional Funding monies for FY 2017 have already been appropriated by Laws 2015, 1st Special Session, Chapter 1 (conditional upon voter approval of Proposition 123), so will not appear in the General Appropriation Act for FY 2017.

The Baseline would delete the footnote concerning the intended use of monies appropriated to the K-3 Reading line item, as the Baseline would incorporate funding for that line item into other programs.

Potential Other Footnotes

Add footnote indicating that the amount appropriated for Basic State Aid from the state General Fund for FY 2017 in the General Appropriation Act shall be reduced to back out additional General Fund funding for Basic State Aid for FY 2017 that is associated with the October 2015 Special Session if Proposition 123 is not approved by voters. This is because the Baseline assumes passage of Proposition 123, so incorporates October 2015 Special Session monies into assumed funding totals for FY 2017. The amount of reduction will depend on student count and inflation data available in the spring of 2016.

STATUTORY CHANGES

The Baseline would:

Inflation

- As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the charter school "Additional Assistance" amounts (A.R.S. § 15-185B4) by 1.15% for standard inflation.

Additional Assistance

- As session law, continue to reduce school districts' Additional Assistance state aid by \$352,442,700 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 2017 by the amount that would be reduced if they did qualify for state aid for FY 2017 and reduce budget limits accordingly.
- As session law, continue to reduce Charter Additional Assistance by \$18,656,000.
- As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.

Joint Technical Education Districts (JTEDs)

- As session law, continue to fund state aid for Joint Technical Education Districts (JTEDs) with more than 2,000 Average Daily Membership (ADM) students at 95.5% of the formula requirement and reduce budget limits accordingly. For FY 2017, the statutory funding formula for all JTEDs (large and small) under current law would fund the Base Support Level (BSL) portion of their funding (but not their District Additional Assistance - DAA) at 92.5% of the full formula amount. Large JTEDs therefore would receive 95.5% of 92.5% of BSL funding in FY 2017. All other JTEDs would receive 100% of 92.5% of BSL funding. DAA funding to both large and small JTEDs would be as prescribed by BRB provisions pertaining to DAA funding for school districts in general.

Education Learning and Accountability System (ELAS)

- As session law, continue to require community colleges and universities to transfer \$6 per pupil by December 1, 2016 for deposit into the Education Learning and Accountability Fund, but have them transfer the monies to the Arizona Department of Administration Automation Projects Fund instead of ADE in order to avoid double counting by ADE. (*See Education Learning and Accountability narrative under Other Issues section for more information.*)

School Safety

- As session law, continue to stipulate that \$100,000 of the \$3,646,500 School Safety Program appropriation for FY 2017 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.
- As session law, continue to require the department to report results of the pilot program by November 1 of the fiscal year.

District-Sponsored Charter Schools

- As permanent law, repeal statutes authorizing district-sponsored charter schools starting in FY 2017. (*Section 17 of the FY 2016 K-12 Education BRB stated*

that it was the intent of the Legislature that district-sponsored charter schools be phased out by FY 2016-2017.)

- As permanent law, repeal A.R.S. § 15-185A7, which otherwise would require school districts that convert district-sponsored charter schools back to non-charter status for FY 2017 to repay to the state all cumulative charter additional assistance funding that it received for the charter school for all years that the charter school was in operation. The repeal would take effect prior to the start of FY 2017.
- As session law, amend Laws 2014, Chapter 16, Section 5 in order to clarify that it does not make affected districts eligible for District Additional Assistance growth funding pursuant to A.R.S. § 15-961B3, which was the original policy intent.
- As session law, also amend the language in Laws 2014, Chapter 16, Section 5 to make it apply to both FY 2016 and FY 2017 in order to address school districts that still operate districts sponsored charters in FY 2016.
- As session law, repeal after FY 2016 language in Laws 2014, Chapter 16, Section 6 that caps ADM in district-sponsored charters schools at 120% of their FY 2013 district-sponsored charter school ADM, since authority for district-sponsored charter schools will be repealed after FY 2016.

Eliminate Hold Harmless

- As permanent law, clarify that District Additional Assistance funding will continue to be based on prior year Average Daily Membership after FY 2016.

Technology-Based Language Development and Literacy Intervention Pilot Program

- As session law, amend Laws 2014, Chapter 17, Section 19 to extend the program through FY 2018, make unspent FY 2015 monies non-lapsing through FY 2017 and make unspent FY 2016 monies non-lapsing through FY 2018.
- As permanent law, change the reporting dates for the program in A.R.S. § 15-217G to reflect the extended schedule.

Rollover

- As session law in the General Appropriation Act, continue to defer \$930,727,700 in Basic State Aid payments for FY 2017 until FY 2018. Appropriate \$930,727,700 in FY 2018 for these deferred Basic State Aid payments. Continue to exempt school districts with fewer than 600 students from the K-12 rollover. Allow the State Board of Education to make the rollover payment no later than July 12, 2017.
- As session law in the General Appropriation Act, continue to require school districts to include in the FY 2017 revenue estimates that they use for

computing their FY 2017 tax rates the rollover monies that they will receive for FY 2017 in July 2017.

Deleted Provisions

The Baseline would not continue the following session law provisions due to their one-time nature or because district-sponsored charter schools will no longer exist starting in FY 2017:

- As session law, continue to reduce Charter Additional Assistance funding to school districts with charter schools that do not receive state aid by the amount that would be reduced under the \$18,656,000 statewide Charter Additional Assistance suspension if they did qualify for state aid for FY 2016 and reduce budget limits accordingly.
- As session law, require all school districts to hold a public meeting to discuss or present their plans for reductions pertaining to District Additional Assistance funding. Require a “C”, “D” or “F” school to allow the community to submit comments or recommendations on the reductions within 30 days of the meeting and require the governing board to consider the comments or recommendations at a subsequent public meeting. Require the governing board of all school districts to include the percentage of classroom spending in the school district’s adopted budget on the page of the budget that governing board members sign.
- As session law, require ADE to notify school districts by December 15, 2015 how it plans to implement current year Average Daily Membership funding in FY 2017 and report the estimated fiscal impact by district.
- As session law, continue for FY 2016 the distribution formula for the Student Success Funding program that was in effect for FY 2015.

Potential Other Statutory Changes

- As permanent law, amend the 1% cap statute (A.R.S. § 15-972) to further clarify how the \$1,000,000 limit on 1% cap costs per county in A.R.S. § 15-972K is to be implemented.
- As permanent law, continue to use prior year ADM for determining eligibility for small school budget exemptions pursuant to A.R.S. § 15-949.
- As permanent law, continue to use prior year ADM in order to determine school district allocations from the Classroom Site Fund, Instructional Improvement Fund, K-12 rollover and lump sum reductions.
- As permanent law, continue to use prior year ADM to compute budget capacity for school district overrides, high school tuition amounts and “minimum QTR” payments required by A.R.S. § 15-992.
- As permanent law, amend A.R.S. § 15-393R4 to require JCCR review of JTED centralized campus leases on a permanent basis, rather than only through December 31, 2016.

- As session law, continue the provision in the FY 2016 budget stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.

Other Issues

This section includes information on the following topics:

General Issues

- FY 2016 Supplemental
- Long-Term Budget Impacts

Ballot Proposition

- October 2015 Special Session and Proposition 123
- Endowment Earnings

Basic State Aid

- JCCR Review of JTED Centralized Campus Leases
- Basic State Aid Formula Description

Property Tax Relief

- 1% Cap Implementation

Non-Formula Programs

- Empowerment Scholarship Account Administration
- Education Learning and Accountability System
- AzELLA Refresh

Non-General Fund Programs

- Proposition 301
- Classroom Site Fund and Current Year Funding
- Budget Overrides

Information on these various issues is as follows:

<i>FY 2016 Supplemental</i>

Additional data and analysis are needed in order to determine whether ADE will need supplemental funding from the General Fund for Basic State Aid for FY 2016. This will depend in part on whether school districts with discontinued “charter conversions” receive an estimated \$20 million in unintended District Additional Assistance “growth” funding in FY 2016 and whether a \$20.2 million savings that was budgeted for 1% Cap reforms for FY 2016 is realized, as discussed below.

The Baseline proposes non-General Fund supplementals for FY 2016 from the Department of Education Professional Development Revolving Fund and from the

Tribal College Dual Enrollment Program Fund. Those proposed non-General Fund supplementals also are discussed below.

District Additional Assistance Growth Funding

The FY 2015 Higher Education BRB (Laws 2014, Chapter 16, Section 5) requires the department in FY 2016 to compute K-12 equalization formula funding for students who in FY 2015 attended school district charter schools that converted to charter status in FY 2014 (“charter conversions”) as if they had attended school district non-charter schools in FY 2015 and to adjust student counts and budget limits for FY 2016 accordingly. This provision was needed in order to enable affected school districts to receive K-12 equalization formula funding for their former “charter conversion” students in FY 2016, as those students otherwise would be excluded from the districts’ student counts for FY 2016.

ADE, however, preliminarily interprets Chapter 16 as entitling affected school districts to approximately \$20.0 million in District Additional Assistance (DAA) “growth” funding in FY 2016 that they would not be receiving if their students had never attended “charter conversions.” The ADE interpretation is not consistent with legislative intent. Under the ADE interpretation, Chapter 16 artificially causes non-charter student counts in these districts to grow by more than 5% in FY 2016, which is the threshold for qualifying for DAA “growth” funding pursuant to A.R.S. § 15-961B3.

The Baseline includes a statutory change to clarify that school district ADM growth resulting from the phase out of district sponsored charter schools does not make a school district eligible for DAA growth funding. *(See Statutory Changes section for more information.)*

1% Cap Reforms

The department will require an estimated \$11,295,600 in supplemental funding from the General Fund for Additional State Aid for FY 2016 if the \$1,000,000 limit on 1% Cap funding per county that was established by the FY 2016 K-12 Education BRB is not successfully implemented for FY 2016. *(See Additional State Aid–1% Cap policy issue and related narrative below for more information.)*

Non-General Fund Supplementals

The Baseline includes \$2,700,000 in proposed supplemental funding from the Department of Education Professional Development Revolving Fund in FY 2016 to fund professional development courses. *(See the department’s operating budget narrative for more information.)*

The Baseline also includes \$160,000 in proposed supplemental funding from the Tribal College Dual Enrollment Program Fund in FY 2016 to fund professional development courses. *(See the Tribal College Dual Enrollment Program Fund line item narrative for more information.)*

Long-Term Budget Impacts

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$137,569,200 in FY 2018 above FY 2017 and \$123,564,300 in FY 2019 above FY 2018. These estimates are based on:

- 1.4% ADM growth for both fiscal years.
- 9,000 new charter ADM and 3,000 new special education weighted ADM for both fiscal years.
- GDP inflators of 1.74% for FY 2018 and 1.76% for FY 2019.
- New construction NAV growth of 2.0% for FY 2018 and 2.1% for FY 2019.
- A \$(7.0) million decrease in FY 2018 in order to eliminate small school weight funding for most multi-site charter schools in FY 2018 (the final year of a 3-year phase out).
- Voter approval of Proposition 123 in May 2016.
- GF decreases of \$(17.5) million in FY 2018 and \$(16.1) million in FY 2019 due to growing Land Trust monies from Proposition 123 under assumed 1.4% ADM growth and 1.6% inflation for both years (assumptions used in the October 2015 Special Session).

October 2015 Special Session and Proposition 123

Laws 2015, 1st Special Session, Chapters 1 & 2 and HCR 2001 (the October 2015 Special Session legislation) make the changes described below (changes made by Chapter 1 and HCR 2001 are conditional upon voter approval of Proposition 123 on May 17, 2016):

- Increase the per pupil "base level" in the Basic State Aid formula beginning in FY 2016 (Chapter 1).
- Fund part of the cost of that increase through higher land trust distributions through FY 2025 (HCR 2001).
- Appropriate monies for "Additional Funding" through FY 2025 (Chapter 1).
- Authorize the special election for Proposition 123 and appropriate \$9.3 million to the Secretary of State to conduct the election (Chapter 2).

The related funding increases for FY 2016 include an estimated \$248.8 million in state aid for the Base Level increase and \$50.0 million for "Additional Funding" for a state aid total of \$298.8 million.

Chapter 1 would increase the Base Level from \$3,427 to \$3,600 per student in FY 2016 and by the lesser of inflation or 2% in subsequent years (unchanged from current law). The \$50.0 million in Additional Funding would be appropriated annually from the General Fund in FY 2016 through FY 2020; \$75.0 million in Additional Funds would be appropriated annually in FY 2021 through FY 2025.

Prop 123 and Chapter 1 would provide the estimated \$298.8 million in state funding to schools in FY 2016 by increasing the State Land Trust distribution rate from 2.5% to 6.9% per year through FY 2025, incorporating \$74.4 million of formerly separate "Additional Inflation" monies into Basic State Aid, and appropriating additional General Fund monies.

The increased Land Trust distribution rate would yield approximately \$170 million - \$250 million in additional K-12 distributions each year through FY 2025. Currently, the K-12 State Land Trust Permanent Fund balance is approximately \$4.8 billion. Under Proposition 123, the balance is projected to equal approximately \$6.2 billion in FY 2025 versus \$9.0 billion under current law.

Proposition 123 would allow the Legislature to temporarily suspend future inflation increases during periods of economic slowdown, in which both sales tax revenue and employment grew less than 2% in the prior year. It would require this suspension if sales tax revenue and employment both grew less than 1%.

Under the law, the Legislature may also reduce the land trust distribution rate to as low as 2.5% if the 5-year average Land Trust balance declines relative to the previous 5 years.

Beginning in FY 2026, the proposition would allow the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpassed 49% of the total state General Fund appropriations. If K-12 spending surpassed 50%, the state could temporarily suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount. Currently, K-12 spending constitutes approximately 42% of total state General Fund appropriations.

Passage of Prop 123 would resolve the *Cave Creek* litigation and satisfy all outstanding inflation adjustment claims brought forth in that case.

(See the 1.15% Inflation Adjustment and State Aid Supplement policy issues above for more information.)

Endowment Earnings

In FY 2015, endowment earnings from state trust lands funded approximately \$129.2 million of Basic State Aid, School Facilities Board bond debt service and K-12 Classroom Site Fund costs.

Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 in order to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools, with the rest being designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands.

The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates endowment earnings primarily by selling or leasing state trust lands and natural products from trust lands. The State Treasurer generates endowment earnings by investing monies received from the State Land Department from the sale of state trust lands and related natural products in stocks, bonds and other income-earning investments.

State trust land earnings are considered either “permanent” or “expendable” depending on whether they are one-time in nature. Only expendable monies are distributed to beneficiaries, as permanent monies are considered to be part of the original endowment and must be reinvested rather than distributed to beneficiaries. Permanent monies include one-time proceeds from the sale of state trust lands and natural products from state trust lands.

Expendable monies include ongoing income that the State Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer.

The portion of Treasurer land trust earnings that is considered expendable is determined by a formula prescribed in the State Constitution, since the value of invested land trust monies fluctuates daily. Currently, the State Constitution requires the State Treasurer to distribute annually to each beneficiary (such as public schools) a flat 2.5% of the average monthly market value of the beneficiary’s permanent fund for the immediately preceding 5 calendar years.

The 2.5% factor was enacted into law by Proposition 118 in November 2012 and will be in effect through calendar year 2021 unless superseded by a new 6.9% factor from Proposition 123 (described below).

After calendar year 2021, the distribution formula in effect prior to Proposition 118 would resume under current law (again if not superseded by Proposition 123). That formula computed expendable Treasurer land trust earnings based on inflation adjusted rates of investment return observed for invested land trust proceeds over the preceding 5 calendar years. Those rates of return fluctuated substantially from year to year in the past depending on market conditions (*see Treasurer’s earnings in Table 8*).

If Prop 123 is passed in May 2016, however, the distribution rate will increase from 2.5% to 6.9% beginning FY 2016 through FY 2025, and would revert back to 2.5% in FY 2026 (*Please see the October 2015 Special Session and Proposition 123 section for more information*).

In FY 2015, public schools received \$129.2 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$53.2 million from the Land Department and \$76.0 million from the State Treasurer (*see Table 8*).

Table 8

**Source of K-12 Endowment Earnings By Fiscal Year
(\$ in Millions)**

Source	2006	2010	2015	2016 est	2017 est ^{1/}
Land Department	67.6	38.1	53.2	43.9	43.9
Treasurer	<u>31.4</u>	<u>0.0</u>	<u>76.0</u>	<u>259.3</u>	<u>270.4</u>
Total	99.0	38.1	129.2	303.2	314.3

^{1/} Assumes no change in trust land lease revenues for FY 2017.

Table 8 shows that K-12 endowment earnings increased from \$99.0 million in FY 2006 to \$129.2 million in FY 2015 after dropping temporarily to \$38.1 million during the Great Recession. Under Proposition 123 they are estimated to increase to \$303.2 million in FY 2016 and \$314.3 million in FY 2017, conditional upon voter approval of the Proposition.

Under the existing 2.5% distribution rate, the State Treasurer distribution of K-12 endowment earnings would be \$87.2 million for FY 2016, which is a known number because it is based on land trust market values through calendar year 2014 only (prior 5 calendar years). Under the 6.9% distribution rate that would be enacted under Prop 123, the State Treasurer’s distribution of K-12 endowment earnings would be \$259.3 million.

The State Land Department will distribute an estimated \$43.9 million in K-12 endowment earnings for FY 2016 based on revenue data for the first 4 months of FY 2016. The actual State Land Department distribution of K-12 endowment earnings for FY 2016 will not be known until after the close of the fiscal year.

Table 9**Use of K-12 Endowment Earnings By Fiscal Year
(\$ in Millions)**

<u>Source</u>	<u>2006</u>	<u>2010</u>	<u>2015</u>	<u>2016</u> ^{1/}	<u>2017</u> ^{1/}
Basic State Aid	46.9	13.9	47.3	219.4	219.8
SFB Debt Service	25.4	24.2	25.0	24.9	24.9
Classroom Site Fund	<u>23.3</u>	<u>0.0</u>	<u>57.8</u>	<u>58.8</u>	<u>69.6</u>
Total	99.0	38.1	129.2	303.2	314.3

^{1/} Estimated

Of the \$129.2 million in K-12 expendable earnings generated for FY 2015, \$24.9 million was used to help fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 and \$47.4 million was used to help fund Basic State Aid pursuant to A.R.S. § 37-521B3. The remaining \$57.0 million was deposited into the Classroom Site Fund (A.R.S. § 15-977) pursuant to A.R.S. § 37-521B4. The latter law dedicates to the Classroom Site Fund all growth in K-12 expendable endowment earnings above the FY 2001 level, which was \$72.3 million (*see Table 9*).

JCCR Review of JTED Centralized Campus Leases

A.R.S. § 15-393 allows a Joint Technical Education District (JTED) to receive up to 0.75 ADM (versus 0.25 ADM in most situations) for each student who attends a JTED “centralized campus” or “leased centralized campus.” A.R.S. § 15-393R4 allows the latter to be located at a school district or charter school if the site is leased at fair market value and if the lease is approved by the Joint Committee on Capital Review (JCCR).

To date, only 2 JTEDs have sought JCCR approval for JTED leases, but the JCCR approval requirement expires after December 31, 2016. After that it is possible that more satellite sites will convert to “leased centralized campus” status in order to qualify for up to 0.75 ADM per student, but JCCR review will no longer be required for those leases. This potentially could result in substantial increases in state formula costs for JTEDs starting in the second half of FY 2017 if large numbers of satellite sites converted to “leased centralized campus” status. The likelihood of this occurring is unknown.

Basic State Aid Formula Description

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula “equalizes” formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base are able to generate their entire formula funding entitlement from local

property taxes alone. Most school districts, however, require “Basic State Aid” monies in order to receive full formula funding.

The equalization formula for school districts consists of 3 components: the Base Support Level (BSL), Transportation Support Level (TSL), and District Additional Assistance (DAA). BSL and DAA funding are computed by multiplying specific dollar amounts in statute by a school district's student count, adjusted for various weights. The TSL instead is computed by multiplying specific dollar amounts per route mile in statute by a district's pupil transportation route miles. The sum of the 3 formula components equals what is referred to as a school district's “equalization base,” which is its total funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, its net assessed property value (NAV) is multiplied by the statutory “Qualifying Tax Rate” (QTR) (A.R.S. § 15-971B) in order to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount, plus the district's share of State Equalization Tax Rate (SETR) revenues (A.R.S. § 15-994), if any, are then subtracted from its equalization base. If the district's combined QTR and SETR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its “local share” funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district's formula funding entitlement), or higher if the district is allowed to budget for items outside of its “Revenue Control Limit” (RCL) pursuant to A.R.S. § 15-910.

Basic State Aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a “charter,” and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools does not include DAA or separate transportation funding and instead consists only of BSL and CAA funding. BSL funding for charter schools is determined under the same formula prescribed for traditional public schools in A.R.S. § 15-943. CAA funding amounts are established separately in A.R.S. § 15-185B4 and for FY 2016 (as modified by the FY 2016 K-12 Education BRB) equal \$1,734.92 per pupil for Grades K-8 and \$2,022.02 per pupil for Grades 9-12. Charter schools receive all of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

1% Cap Implementation

The FY 2016 K-12 Education BRB amended A.R.S. § 15-972 in order to cap state costs for the 1% cap at a maximum of \$1.0 million per county. The FY 2016 K-12 BRB required the Property Tax Oversight Commission (PTOC) to allocate the loss of state 1% cap funding among local taxing jurisdictions based on its determination of their pro rata shares of the overall 1% cap exceedance.

The FY 2017 budget assumed a state General Fund savings of \$(20,219,700) for this issue. The amount of Additional State Aid that the Department of Revenue (DOR) has instructed the Department of Education to allocate to each school district for FY 2017 pursuant to A.R.S. § 15-972H, however, does not reflect this intended savings. DOR indicates that this is because it believes that statute (A.R.S. § 15-972K) is unclear regarding how pro rata shares of the \$1.0 million are to be computed for counties with more than one affected school district. DOR also believes that A.R.S. § 15-972K is unclear regarding which taxing jurisdictions are required to transfer monies to school districts in order to help mitigate related losses and regarding how those pro rata transfers should be computed.

The Legislature may want to consider further amending A.R.S. § 15-972H in order to provide clarification on this issue. *(See Potential Other Statutory Changes section.)*

(See Additional State Aid – 1% Cap policy issue for more information.)

Empowerment Scholarship Account Administration

A.R.S. § 15-2402C allows ADE to retain up to 5% of each student's Empowerment Scholarship Account (ESA) funding for program administration, of which it is required to transfer 1/5th to the State Treasurer to fund the latter's costs for ESA fund processing. The remaining 4% leaves the department with up to approximately \$1,084,000 for its own ESA administrative costs for FY 2016 (\$27,100,000 in total estimated ESA funding for FY 2016 X 4% = \$1,084,000). The retained monies, however, are subject to legislative appropriation and the department's appropriation of ESA administration for FY 2016 is \$399,000. Any of the "4%" monies that are retained, but not appropriated or spent, are carried forward in the Department of Education Empowerment Scholarship Account Fund to the next fiscal year. At the end of FY 2015 the fund had a carry-forward balance of \$842,600 in ESA administrative funding *(see Summary of Funds for more information).*

The FY 2017 Baseline would continue to appropriate \$399,000 from the Department of Education Empowerment Scholarship Account Fund for ESA administration for FY 2017. The department has requested that this appropriation be increased to \$800,000 for FY 2017 in order to fund program automation, caseload growth, and independent third party contracts that A.R.S. § 15-240(I) now requires it to enter into in order to determine whether students qualify for special education services.

The department estimates that it would cost \$500,000 - \$700,000 to automate its account management system based on earlier preliminary bids. *(See Empowerment Scholarship Accounts narrative under Basic State Aid for more information.)*

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

Beginning in FY 2015, ELAS funding is appropriated to the Arizona Department of Administration Automation Projects Fund rather than ADE. As a result, ELAS funding no longer appears in the ADE budget. *(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)*

The FY 2017 Baseline includes no General Fund monies for continued ELAS development, as the \$5.4 million appropriated for ELAS development in FY 2016 was one-time funding.

The FY 2017 Baseline, however, assumes that the FY 2017 budget would continue to require community college and universities to transfer \$6 per Full-Time Student Equivalent (FTSE) by December 1 of the budget year to help fund ELAS, which would provide approximately \$1.6 million in continued non-General Fund monies for ELAS development for FY 2017. For FY 2017, however, the Baseline would have universities and community colleges make their deposits directly into the ADOA Automation Projects Fund, rather than first into the ADE Education Learning and Accountability System Fund in order to avoid double counting. Currently the monies appear as revenues for both funds, since they pass through both of them. *(See Statutory Changes section for more information.)*

AZELLA Refresh

The department estimates that it will need approximately \$1,000,000 in additional funding in FY 2017 in order to replace existing AZELLA test questions. The current placement test questions have remained unchanged since FY 2013 for Kindergarten and since FY 2014 for Grades 1-12. The department indicates that AZELLA test questions need to be refreshed periodically so that they do not become overexposed and threaten the validity of test scores. The department plans to update questions during FY 2017 in preparation for FY 2018 testing.

Proposition 301

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 in order to increase the state Transaction Privilege Tax (TPT) (“sales tax”) rate on most purchases from 5% to 5.6% through FY 2021 in order to generate more funding for public education. It also amended A.R.S. § 42-5029 in order to prescribe how the new sales tax revenues would be allocated (*see Table 9*).

As shown in *Table 10*, Proposition 301 revenues are earmarked for the following items:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction.
- Universities (12% of the remainder after SFB debt service).
- Community colleges (3% of the remainder).
- Tribal Colleges (same formula as community colleges).
- Income tax credit for sales tax paid by low income households (to offset the additional 0.6¢ sales tax rate).
- Additional School Days.
- School Safety and Character Education.
- School Accountability.
- Failing Schools.
- Classroom Site Fund (A.R.S. § 15-977).

Proposition 301 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies remaining after all other distributions are made. Its share equaled \$347.3 million (55.7%) of the \$623.9 million collected for FY 2015 (*see Table 10*). The Proposition 301 sales tax expires after FY 2021.

Classroom Site Fund

Proposition 301 amended A.R.S. § 37-521B4 in order to dedicate to the Classroom Site Fund all growth in K-12 expendable land trust earnings above the amount generated by the State Treasurer and State Land

Department combined for FY 2001 (the last year before Proposition 301 took effect), which equaled \$72.3 million. In FY 2015, the Classroom Site Fund received approximately \$50.7 million from K-12 endowment earnings, which resulted in total deposits of \$398.0 million (\$347.3 million from the 0.6¢ sales tax + \$50.7 million from endowment earnings = \$398.0 million).

Proposition 123 from the October 2015 Special Session would further amend A.R.S. § 37-521B4 in order to dedicate all growth in state land trust revenues from the proposed 4.4% increase in the trust distribution percentage (from 2.5% currently to 6.9% through FY 2025) to Basic State Aid, rather than to the Classroom Site Fund. The latter, however, would still receive all growth in the original 2.5% distribution after FY 2001 to the extent that those earnings plus related earnings from the State Land Department exceeded \$72.3 million. (*See October 2015 Special Session and Proposition 123 narrative above for more information.*)

The \$347.3 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2015 does not include approximately \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in *Table 10*. Those 2 amounts combined equaled \$450.1 million for FY 2015.

ADE distributed \$295 per pupil from the Classroom Site Fund in FY 2015. Those monies were in addition to funds allocated through the Basic State Aid formula. School districts and charter schools may use Classroom Site Fund monies for any purpose listed in A.R.S. § 15-977H, which includes items such as class size reductions and teacher compensation.

The Classroom Site Fund is expected to distribute \$327 per pupil for FY 2016. The per pupil distribution for FY 2017 will be determined in March 2016 pursuant to A.R.S. § 15-977G1.

Classroom Site Fund and Current Year Funding

The Classroom Site Fund (CSF) per pupil allocation formula in A.R.S. § 15-977G2 currently is based on prior year Average Daily Membership (ADM) counts for school districts and current year ADM counts for charter schools. The FY 2016 K-12 Education BRB, however, requires both school district and charter school students to be counted on a current year basis starting in FY 2017. This will cause Classroom Site Fund (CSF) allocations to also be computed for school districts on a current year basis starting in FY 2017, which will increase the likelihood of adjustments in the CSF per pupil estimate that are computed annually by March 30 pursuant to A.R.S. § 15-977G1. Starting in FY

Table 10

**Proposition 301 Monies
(FY 2015 Actual)
(\$ in Millions)**

<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
School Facilities Board	\$64.1	For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	67.1	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	16.8	Receive 3% of monies after SFB debt service.
Tribal Colleges	0.8	Same formula as for community colleges.
Income Tax Credit	25.0	For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	173.8	
Additional School Days	86.3	To add 5 days to K-12 school year (180 days total).
School Safety	8.0	\$7.8 million for School Safety (A.R.S. § 15-154) and \$0.2 million for Character Education (A.R.S. § 15-154.01).
School Accountability	7.0	For school accountability pursuant to A.R.S. § 15-241 and § 15-1041.
Failing Schools	1.5	To Failing Schools Tutoring Fund (A.R.S. § 15-241CC).
Classroom Site Fund	347.3	Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	450.1	
Grand Total	\$623.9	

2017, for example, allocations to school districts will depend on their final ADM counts for FY 2017, but the estimated per pupil amount for FY 2017 will be computed in March 2016, which is before even the final ADM counts for FY 2016 will be known. (See *Potential Other Statutory Changes* section.)

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.

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).

For FY 2016, 91 districts statewide have M&O overrides pursuant to A.R.S. § 15-481, 5 have “Special Program” overrides pursuant to A.R.S. § 15-482, and 23 have District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2016 include \$401.0 million for M&O overrides, \$1.2 million for Special Program overrides and \$61.0 million for District Additional Assistance overrides. Grand total override funding for FY 2016 therefore equals \$463.2 million, which is \$(5.2) million below the \$468.4 million amount budgeted for all overrides collectively in FY 2015 (see *Table 11*). (See the *School Facilities Board budget narrative for a related summary on K-12 Capital Bonding*.)

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.

Table 11

**K-12 Budget Overrides
(\$ in Millions)**

<u>Type of Override</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>Change</u>
M&O	387.3	401.0	13.7
Special Program	6.9	1.2	(5.7)
Additional Assistance	74.2	61.0	(13.2)
Total	468.4	463.2	(5.2)

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. The data cited in *Table 11* are from the related ADE reports for FY 2015 and FY 2016.

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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	100,000	100,000
Year-End Fund Balance	0	15,000
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	195,700	110,600
Year-End Fund Balance	110,600	8,500
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	40,500	35,000
Year-End Fund Balance	11,200	6,200
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	356,890,200	435,335,500
Year-End Fund Balance	68,260,700	68,260,700
Department of Education Empowerment Scholarship Account Fund (EDA2570/A.R.S. § 15-2402)		Partially-Appropriated
Source of Revenue: Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C and prior year carry forward monies.		
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 2015 scholarships account transfer was approximately \$17.7 million). The student account monies are not displayed to avoid double counting of the General Fund. Non-appropriated monies in the fund are prior year carryforward. <i>(See also the "State Treasurer Empowerment Scholarship Account Fund" in the Summary of Funds for the State Treasurer.)</i>		
Appropriated Funds Expended	200,100	399,000
Non-Appropriated Funds Expended	67,100	33,900
Year-End Fund Balance	842,600	1,709,700

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Department of Education Professional Development Revolving Fund (EDA2580/A.R.S. § 15-237.01)		Appropriated
Source of Revenue: Tuition paid for professional development, pursuant to A.R.S. § 15-237.01.		
Purpose of Fund: To offset the cost of providing professional development. Statute establishes the fund as an appropriated fund, but the department expended monies out of the fund in FY 2015 and is expending monies out of the fund in FY 2016 without an appropriation.		
Funds Expended	777,700	0
Year-End Fund Balance	601,000	601,000
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	16,800	261,200
Year-End Fund Balance	126,300	65,100
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	453,900	110,400
Year-End Fund Balance	404,900	317,000
Education Learning and Accountability Fund (EDA2552/A.R.S. § 15-249.02)		Non-Appropriated
Source of Revenue: Monies transferred from the Arizona Department of Administration (ADOA) Automation Projects Fund (APF), which for FY 2016 received \$5,400,000 from the State General Fund, and an estimated \$1,600,000 from a \$6 per Full-Time Student Equivalent (FTSE) fee received from Arizona public universities and community colleges pursuant to Laws 2015, Chapter 15, plus any remaining FY 2015 balances in the fund. Expenditures 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.		
Funds Expended	0	0
Year-End Fund Balance	3,566,500	2,838,300
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 attend "failing" schools, pursuant to A.R.S. § 15-241R, and to purchase materials designed to help students meet the Arizona Academic Standards, pursuant to A.R.S. § 15-241CC.		
Funds Expended	1,162,300	1,451,800
Year-End Fund Balance	537,000	585,200
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	1,126,218,000	1,175,376,900
Year-End Fund Balance	2,052,800	2,071,800

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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	9,395,800	0
Year-End Fund Balance	0	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	189,300	190,900
Year-End Fund Balance	0	0
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	4,760,800	3,037,200
Year-End Fund Balance	391,500	629,300
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	4,875,600	5,109,700
Year-End Fund Balance	1,805,300	945,600
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	43,077,300	44,032,900
Year-End Fund Balance	19,732,900	19,768,500
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	3,518,500	3,823,300
Year-End Fund Balance	1,665,700	852,400

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
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	219,440,500
Year-End Fund Balance	7,754,000	7,754,000
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	1,681,400	1,672,800
Year-End Fund Balance	1,221,700	965,600
Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7)		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	0	7,000,000
Non-Appropriated Funds Expended	104,818,300	98,302,500
Year-End Fund Balance	10,370,700	6,348,700
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	6,255,100	4,931,300
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.		
Funds Expended	0	0
Year-End Fund Balance	1,957,000	2,259,500

SUMMARY OF FUNDS	FY 2015 Actual	FY 2016 Estimate
Student Success Fund (EDA2575/A.R.S. § 15-917) [Repealed]		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.		
Funds Expended	18,746,600	0
Year-End Fund Balance	6,053,400	0
Teacher Certification Fund (EDA2399/A.R.S. § 15-531)		Appropriated
Source of Revenue: Fees collected by the Department 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	2,050,400	1,971,800
Year-End Fund Balance	91,800	46,000
Technology-Based Language Development and Literacy Intervention Fund (EDA2759/A.R.S. § 15-217)		Appropriated
Source of Revenue: Unused monies from the now-repealed Early Graduation Scholarship Program. The FY 2015 K-12 Education Budget Reconciliation Bill (Laws 2014, Chapter 17) required the Commission for Postsecondary Education to transfer these monies (\$546,800) into the fund from its IGA/ISA Fund by August 1, 2014. As session law, Chapter 17 also appropriated monies in FY 2015 and FY 2016 for the pilot program. The Baseline would amend Chapter 17 to make the FY 2015 appropriation non-lapsing through FY 2017 and the FY 2016 appropriation non-lapsing through FY 2018 due to a delayed start for the program.		
Purpose of Fund: To fund a pilot program to promote English language development and literacy for public school pupils in Grades K-6.		
Funds Expended	0	246,000
Year-End Fund Balance	546,800	0
Tribal College Dual Enrollment Program Fund (No Fund Number/A.R.S. § 15-244.01)		Appropriated
Source of Revenue: Unclaimed lottery prize monies pursuant to A.R.S. § 5-568, other monies appropriated by the Legislature and gifts, grants, devices and other contributions.		
Purpose of Fund: To provide choice and access to higher education for high school students in this state by compensating tribal colleges for tuition and fees that are waived to allow high school students to attend classes at tribal colleges.		
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	158,700	159,700