

Estimated Classroom Site Fund Per Pupil Amount for FY 2012

A.R.S. § 15-977 requires the JLBC Staff to determine by March 30 of each year a per pupil amount from the Classroom Site Fund (CSF) for the upcoming fiscal year. The CSF was established by Proposition 301 from the November 2000 General Election. It receives funding from the 0.6¢ education sales tax established by Proposition 301 and any K-12 state trust land revenues that exceed \$72.3 million. For FY 2012, the JLBC Staff currently estimates that public schools will receive \$219 per pupil from the CSF for FY 2012 on a cash basis. From a “budget capacity” perspective, the estimated per pupil amount is \$94 due to a technical adjustment required by A.R.S. § 15-977G1, as described below.

Statutory Formula

A.R.S. § 15-977G1 stipulates that the per pupil funding amount from the CSF for a given budget year shall be computed using the estimated “weighted” student count for the current year and estimated resources in the CSF for the budget year, adjusted for any prior year carry-forward or shortfall. The Arizona Department of Education (ADE) currently estimates that the weighted student count for the current year will be 1,325,078 and the JLBC Staff currently estimates that the CSF will have \$290,213,500 in available resources for FY 2012. These 2 estimates would yield a CSF per pupil amount of \$219 per weighted student for FY 2012 apart from a required adjustment for prior year shortfalls. After a \$(125) per pupil adjustment for cumulative prior year shortfalls pursuant to A.R.S. § 15-977G1, the per pupil amount is \$94 (\$219 unadjusted per pupil amount minus \$125 per pupil adjustment = \$94 adjusted per pupil amount) (*see attachment*).

Estimated Weighted Student Count

The estimated FY 2012 weighted student count of 1,325,078 is based on preliminary 100-day Average Daily Membership (ADM) counts from school districts for the current year (FY 2011) and projected 100-day ADM counts for charter schools for next year (FY 2012). This is because CSF allocations are based on “student counts,” which in statute means “prior year” ADM for districts (FY 2011 for the FY 2012 distribution) and “current year” ADM for charter schools (FY 2012 for the FY 2012 distribution). The portion of the estimated count that pertains to charter schools, therefore, is more uncertain than the district portion because it will depend on actual charter school ADM growth next year.

ADE’s student count estimate includes pupils from the Arizona State Schools for the Deaf and the Blind (ASDB) and the Department of Juvenile Corrections (DJC), since they both also receive CSF funding. Per pupil allocations for public schools and DJC are based on their “Group A weighted” student counts pursuant to A.R.S. § 15-977G. ASDB allocations are based on its “Group B weighted” student counts pursuant to A.R.S. § 15-977L.

Estimated CSF Revenues

The CSF revenue estimate of \$290,213,500 for FY 2012 assumes a 2.0% increase in Proposition 301 sales tax revenues for FY 2011 and a 5.0% increase above FY 2011 for FY 2012. Those growth rates are identical to the ones assumed for state sales tax revenues in general (not just from Proposition 301) for those respective years in the JLBC Baseline for FY 2012.

The \$290,213,500 estimate also includes a projected \$13,981,800 in K-12 endowment earnings for FY 2012. Proposition 301 requires all K-12 endowment earnings above \$72,263,000 to be deposited into the CSF. Based on input from the State Treasurer and State Land Department, total K-12 endowment earnings are projected to be \$86,244,800 for FY 2012. Of that amount, \$72,263,000 would be used for Basic State Aid and School Facilities Board debt service and the remaining \$13,981,800 would be deposited into the CSF pursuant to A.R.S. § 37-521B4.

Technical Adjustment

In addition, the \$94 per pupil estimate includes a \$(125) per pupil adjustment for cumulative prior year shortfalls. This adjustment is required by A.R.S. § 15-977G1 and represents the cumulative per pupil difference between what public schools have been authorized to spend (“budget capacity”) from the CSF since FY 2002 (the first year of CSF implementation) and the total amount of cash that they have received from the CSF over that time period (*see Table 1*). Those 2 amounts have diverged substantially in recent years due to CSF revenue shortfalls resulting from the slow economy. The adjustment required by A.R.S. § 15-977G1 is expected to keep CSF “budget capacity” and “cash” in better long-term alignment.

Although public schools would receive only \$94 in new CSF “budget capacity” per pupil for FY 2012 under these estimates, they are projected to receive \$219 in new CSF *cash* per pupil for FY 2012. This is because A.R.S. § 15-977K permits ADE to make back-payments for prior year shortfalls, including the \$125 per pupil cumulative shortfall described above. As a result, public schools are expected to receive \$219 in total CSF *cash* per pupil for FY 2012, including \$125 per pupil to address cumulative prior year shortfalls and \$94 to fund new “budget capacity” for FY 2012 under current estimates (*see Table 1*).

The effect of the \$(125) per pupil technical adjustment on individual school districts and charter schools will depend on whether they have been budgeting their CSF expenditures on a “cash” or “budget capacity” basis since the start of CSF funding in FY 2002. Public schools that have been budgeting CSF expenditures on a cash basis will not be affected by the adjustment, since they never spent the \$125 in unfunded “budget capacity” per pupil that is being deducted for FY 2012. Public schools that spent all or part of the \$125 per pupil amount by borrowing cash from other areas of their budgets, however, will essentially have to pay back the “borrowed” monies in FY 2012 using a portion of the \$219 in new CSF cash that they are expected to receive for FY 2012 under current estimates.

Table 1

CSF Per Pupil Cash versus “Budget Capacity” Cumulatively Through FY 2012 (est)

<u>Fiscal Year</u>	<u>Budget Capacity</u>	<u>Cash</u>		<u>Total</u>	<u>Difference</u>
		<u>For Current Year</u>	<u>Back Payments</u>		
FY 2002	\$ 272.42	\$ 259.80	\$ 12.35	\$ 272.15	\$ (0.27)
FY 2003	239.47	239.32		239.32	(0.15)
FY 2004	230.00	230.17		230.17	0.17
FY 2005	242.00	242.02		242.02	0.02
FY 2006	353.00	320.46		320.46	(32.54)
FY 2007	333.00	333.06		333.06	0.06
FY 2008	401.00	397.29		397.29	(3.71)
FY 2009	390.00	259.45		259.45	(130.55)
FY 2010	244.00	209.70		209.70	(34.30)
FY 2011 ^{1/}	<u>120.00</u>	<u>0</u>	<u>196.28</u>	<u>196.28</u>	<u>76.28</u>
Subtotal	\$2,824.89	\$2,491.27	\$208.63	\$2,699.90	\$(124.99)
FY 2012 (est)	<u>94.01</u>	<u>94.01</u>	<u>124.99</u>	<u>219.00</u>	<u>124.99</u>
Total	\$2,918.90	\$2,585.28	\$333.62	\$2,918.90	\$0

^{1/} Laws 2010, Chapter 306 set the “Budget Capacity” amount at \$120.00 per pupil for FY 2011, rather than the \$25.00 amount computed pursuant to A.R.S. § 15-977G1.

Potential Impact of Estimation Error

The March 30 estimates are based on projected estimates of sales tax revenues, endowment earnings, carry-forward amounts, student counts, and other factors. If revenue factors or student counts vary from the assumptions, more funding will end up being available per pupil than anticipated, and vice versa. If the March 30 per pupil estimate is too *high*, recipients will receive only what is available for distribution from the CSF for the year, which would be less than the March 30 estimate would provide. Under this circumstance, A.R.S. § 15-977M and 15-978 would allow school districts to issue “warrants” (short-term loans from commercial banks) to temporarily make up the difference. Districts would then have to pay back the warrants with interest the following year. Charter schools do not have statutory authority to issue warrants, however, so would have to cover any CSF shortfall with alternative funding, such as from separately-arranged bank financing.

If the March 30 per pupil estimate is too *low*, recipients potentially could receive at least a portion of the surplus funding in FY 2011 through prior year back-payments authorized by A.R.S. § 15-977K, as noted above. Otherwise, surplus monies would be carried forward into FY 2012 and factored into CSF per pupil computations for that year.

FY 2011 Update

In March 2010, the CSF per pupil amount for FY 2011 was estimated at \$220. Since then, CSF sales tax revenues into the fund have underperformed by an estimated \$(20.0) million and K-12 endowment earnings and carry-forward funds combined have provided \$(11.1) million less than expected, for a total projected shortfall of \$(31.1) million for FY 2011. As a result, ADE is currently expected to allocate approximately \$196 per pupil from the CSF for FY 2011, or \$(24) less than the \$220 per pupil amount that was originally estimated for FY 2011.

In that regard, it should be noted that the current \$94 per pupil estimate for FY 2012 does not include adjustments for contingencies related to revenue or enrollment growth. Current law does not make provisions for such adjustments.

JLBC Staff
April 4, 2011

Estimated Classroom Site Fund Per Pupil Allocation for FY 2012

JLBC Staff
3/30/2011

Notes:

- "Sales Tax" revenue estimates assume 2.0% growth in FY 2011 and 5.0% in FY 2012..
- "Prop 301 Expenditure" estimates for FY 2011 and FY 2012 are based on the distribution formula in A.R.S. § 42-5029E.
- "Endowment Earnings" estimates for FY 2011 and FY 2012 are based on input from the Office of the State Treasurer and the State Land Department.
- The "Weighted Student Count" estimates for FY 2012 are from ADE and include ASDB and DJC, which receive CSF funding.
- The "Cumulative Prior Year Shortfall Per Pupil" amount equals the difference between "cash" and "budget capacity" that schools have received from the Classroom Site Fund (CSF) cumulatively since its inception in FY 2002 (including the currently projected difference for FY 2011).

	FY 2010	(original) FY 2011	(revised) FY 2011	(estimated) FY 2012
Prop 301 Revenues				
Sales Tax	506,011,400	539,464,600	516,131,600	541,938,200

Prop 301 Expenditures

SFB Debt Service	65,810,800	65,841,200	65,809,200	65,810,800
Universities	52,824,100	56,834,800	54,038,700	57,135,300
Community Colleges	13,206,000	14,208,700	13,509,700	14,283,800
Tribal Assistance	484,500	490,000	689,500	696,100
Additional School Days	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000
Accountability Measures / SAIS	7,000,000	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000	25,000,000
Classroom Site Fund	245,905,500	274,309,400	254,304,000	276,231,700
Total (sales tax only)	506,011,400	539,464,600	516,131,600	541,938,200

Classroom Site Fund Revenues

Prop 301 Sales Tax	245,905,500	274,309,400	254,304,000	276,231,700
Endowment Earnings	-	11,094,900	-	13,981,800
Prior Year Carryforward	24,586,500	-	31,900	-
Total Estimated Revenues	270,492,000	285,404,300	254,335,900	290,213,500

Classroom Site Fund Expenditures

Total Estimated Revenues	270,492,000	285,404,300	254,335,900	290,213,500
Less: Backpayments for Prior Year Shortfalls		-	-	-
Less: Carryforward to Next Year	(31,900)	-	-	-
Net Revenues Available for Current Year	270,460,100	285,404,300	254,335,900	290,213,500
Weighted Student Count	1,289,772	1,297,749	1,295,797	1,325,078
Available Funding Per Weighted Pupil -- Cash	\$209.70	\$220	\$196	\$219
Cumulative Prior Year Shortfall Per Pupil	not applicable	(\$195)	(\$195)	(125)
Available Funding Per Weighted Pupil -- Budget Capacity <u>1/</u>		\$25	\$1	\$94
Final Authorized Budget Capacity <u>2/</u>		\$120	\$120	

1/ Reflects a technical adjustment for cumulative prior year shortfalls pursuant to A.R.S. 15-977G.

2/ Laws 2010, Chapter 306 set new budget capacity at \$120 per pupil for FY 2011.