

<b>DEPARTMENT OF EDUCATION - ASSISTANCE TO SCHOOLS</b>				<b>A.R.S. § 15-231</b>
<b>General Fund and Permanent State Common School Fund</b>	<b>FY 1998 Actual</b>	<b>FY 1999 Estimate</b>	<b>FY 2000 Approved</b>	<b>FY 2001 Approved</b>
FTE Positions	56.8	57.8	57.8 <sup>1/</sup>	57.8 <sup>1/</sup>
<u>Statutory Formula Programs</u>				
Basic State Aid Entitlement	1,863,121,900	2,028,459,900	2,125,814,400 <sup>2/3/4/5/6/</sup>	2,190,833,500 <sup>2/3/4/5/6/</sup>
Additional State Aid to Schools	161,207,200	174,255,400	188,028,000	199,222,900
Assistance to School Districts for Children of State Employees	64,100	114,600	94,300	104,600
Certificates of Educational Convenience	1,056,600	2,763,900	1,637,800	1,998,600
Perm. Special Ed. Institutional Voucher Fund	10,269,500	9,818,000	12,243,500	12,850,600
Spec. Ed. Plcmt.& Resid.Ed. Voucher Fund	2,606,200	1,505,800	3,292,700	3,855,500
Subtotal	2,038,325,500	2,216,917,600	2,331,110,700	2,408,865,700
<u>Non-Formula Programs</u>				
Accountability Measures	0	5,000,000	5,000,000 <sup>7/8/</sup>	5,000,000 <sup>7/8/</sup>
Adult Education Assistance	4,568,100	4,580,700	4,581,200 <sup>9/10/</sup>	4,586,800 <sup>9/10/</sup>
Arizona Teacher Evaluation	114,700	199,300	200,500	202,200
Career Ladder Administration	81,400	131,400	128,900	130,400
Charter Schools Stimulus Fund	1,000,000	1,000,000	0	0
Chemical Abuse	854,900	860,400	858,800	862,200
Extended School Year	500,000	500,000	500,000	500,000
Family Literacy	998,800	1,000,000	1,000,000	1,000,000
Gifted Support	1,276,400	1,296,300	1,294,400	1,296,800
Optional Performance Incentive Programs	288,700	400,000	400,000	400,000
Parental Choice for Reading Success	0	1,000,000	1,000,000	1,000,000
Residential Placement	0	100,000	100,000	100,000
School Report Cards	302,900	486,600	486,100 <sup>11/</sup>	488,900 <sup>11/</sup>
School Safety Program	5,996,300	7,000,000	7,000,000	7,000,000
Small Pass-Through Programs	463,700	531,600	581,600 <sup>12/</sup>	581,600 <sup>12/</sup>
State Block Grant - Early Childhood	19,363,700	19,488,600	19,489,300	19,494,800
State Block Grant - Vocational Education	11,045,300	11,099,800	11,089,000 <sup>13/</sup>	11,123,600 <sup>13/</sup>
Vocational Education Extended Year	0	600,000	600,000	600,000
Youth Support Research	15,000	39,000	39,000	39,000
Subtotal	46,869,900	55,313,700	54,348,800	54,406,300
<b>Total</b>	<b>2,085,195,400</b>	<b>2,272,231,300</b>	<b>2,385,459,500</b>	<b>2,463,272,000</b>
<b>Additional Appropriations -</b>				
Educ.; Dept. of Corrections, Ch. 233	0	0	200,000	200,000
Nonresident Special Educ. Pupils; Costs, Ch. 243	0	0	150,000	150,000
<b>Total Appropriations</b>	<b>2,085,195,400</b>	<b>2,272,231,300</b>	<b>2,385,809,500</b> <sup>14/15/</sup>	<b>2,463,622,000</b> <sup>14/15/</sup>
<u>Fund Summary</u>				
General Fund	2,049,819,200	2,198,297,300	2,317,140,300	2,392,485,900
Permanent State Common School Fund	35,376,200	73,934,000	68,669,200	71,136,100
<b>Total Appropriations</b>	<b>2,085,195,400</b>	<b>2,272,231,300</b>	<b>2,385,809,500</b>	<b>2,463,622,000</b>

**Program Description** — Assistance to Schools consists of programs that provide pass-through funding to school districts and charter schools. The largest of these is Basic State Aid, which provides the state's share of equalization assistance to school districts and charter schools based on a funding formula set in statute.

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**Basic State Aid Entitlement** — K-12 Education funding in Arizona is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula "equalizes" maintenance and operation (M&O) funding among school districts—enabling them all to spend approximately the same amount of M&O money per pupil from state and local sources combined. A few districts with very strong local property tax bases 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 4 elements: the "Base Support Level" (BSL), Transportation Support Level (TSL), "Capital Outlay Revenue Limit" (CORL), and "Soft Capital" (formerly "Capital Levy Revenue Limit" or "CLRL"). All but the TSL are computed by multiplying a specific dollar amount by a school district's student count (adjusted for various "weights"). The TSL, however, is computed by multiplying a specific dollar amount by a district's pupil transportation route miles. BSL, TSL and CORL funds may be used for M&O or capital expenditures.

- 1/ All FTE Positions relate to Special Line Items.
- 2/ 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 \$68,669,200 in expendable income derived from the Permanent State Common School Fund for FY 2000 and an estimated \$71,136,100 in expendable income from the Permanent State Common School Fund for FY 2001. (General Appropriation Act footnote)
- 3/ Receipts derived from the Permanent State Common School Fund and any other non-state General Fund revenue source that is dedicated to fund Basic State Aid will be expended, whenever possible, before expenditure of state General Fund monies. (General Appropriation Act footnote)
- 4/ All monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, the income from the investment of permanent funds as prescribed by the Enabling Act and the Constitution 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. No expenditures may be made except as specifically authorized above. (General Appropriation Act footnote)
- 5/ The appropriated amount includes an estimated \$29,247,500 in FY 2000 above FY 1999 and an estimated \$27,855,300 in FY 2001 above FY 2000 for classroom enhancements. It is the intent of the legislature that these monies be used to enhance one or more of the following items: classroom teacher salaries, hiring new teachers, teacher training and development, classroom technology, strengthening programs for pupils in Kindergarten programs through grade 3, additional school days, supplemental learning programs to meet state academic standards, reading clinics, and achieving or maintaining school sizes of fewer than 450 pupils. (General Appropriation Act footnote)
- 6/ All funding appropriated to school districts and charter schools and allocated through the expanded K-3 weights shall only be used for research-based literacy programs proven to demonstrate increased reading performance in Kindergarten programs through 3<sup>rd</sup> grade. These reading programs may include teachers, teacher aides, tutors, summer reading classes, after school classes and reading materials. School districts and charter schools must report by July 15 of each year to the Superintendent of Public Instruction on how the monies were used and how well the monies increased reading performance in Kindergarten programs through 3<sup>rd</sup> grade. The Superintendent of Public Instruction shall analyze and summarize these reports for presentation to the Governor, President of the Senate and Speaker of the House of Representatives. School districts and charter schools that fail to report to the Superintendent of Public Instruction by July 15 shall have the monies generated by the K-3 weight withheld by the State Board of Education until such time that the report is received. (General Appropriation Act footnote)
- 7/ Of the monies appropriated for Accountability Measures, not more than \$200,000 shall be for administrative costs. All monies not used for administrative costs shall be used to increase the base level as defined in A.R.S. § 15-901B. (General Appropriation Act footnote)
- 8/ This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 9/ The appropriated amount is for classes in adult basic education, general education development and citizenship on a statewide basis. (General Appropriation Act footnote)
- 10/ It is the intent of the Legislature that no more than 10% of the appropriation for Adult Education Assistance be used by the Department of Education for operating the Division of Adult Education. It is also the intent of the Legislature that the greatest possible proportion of monies appropriated for adult education programs be devoted to instructional, rather than administrative, aspects of the programs. (General Appropriation Act footnote)
- 11/ The appropriated amount includes \$100,000 to report academic productivity data, as required under A.R.S. § 15-746. (General Appropriation Act footnote)
- 12/ The appropriated amounts for both FY 2000 and FY 2001 include \$50,000 for the Academic Contest Fund, \$82,400 for Academic Decathlon, \$50,000 for Arizona Geographic Alliance, \$40,000 for Arizona Humanities Council, \$25,200 for Arizona Principals' Academy, \$234,000 for Arizona School Service through Education Technology, \$50,000 for Project Citizen and \$50,000 for the Economic Academic Council. (General Appropriation Act footnote)
- 13/ The appropriated amount is for block grants to charter schools and school districts that have vocational education programs. It is the intent of the Legislature that monies appropriated in the FY 2000 and FY 2001 General Appropriation Act for the State Block Grant for Vocational Education be used to promote improved student achievement by providing vocational education programs with flexible supplemental funding that is linked both to numbers of students in such programs and to numbers of program completers who enter jobs in fields directly related to the vocational education program that they completed. It is the intent of the Legislature that the amount of State Block Grant for Vocational Education funding that is used for state level administration of the program be limited to no more than the amount used for such costs during the prior fiscal year plus the applicable amount of any pay raise that may be provided for state employees through legislative appropriation. (General Appropriation Act footnote)
- 14/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items for the Program.
- 15/ This amount does not include a \$20,000,000 or \$40,000,000 "trigger" appropriation made by Laws 1999, Chapter 5, 1<sup>st</sup> Special Session. Triggered appropriations depend on the availability of excess revenues. (For more information, refer to the "Basic State Aid; Base Level Increase" description in this cost center and the summary of "Revenue and Spending Triggers" at the front of this report.)

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Soft Capital funds may be used for capital items only. The sum of the 4 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, the net assessed property value (NAV) of the district is multiplied by the statutory "Qualifying Tax Rate" (QTR) and "County Equalization" tax rate in order to determine the amount of funding that is assumed to come from local sources under the formula. If this combined amount exceeds the district's equalization base, it is not entitled to Basic State Aid. If, however, "local share" funding does not exceed the district's equalization base, the district receives Basic State Aid funding in order to make up the difference.

Of the 228 school districts in Arizona, 16 are not expected to receive any equalization assistance during FY 2000 and FY 2001 because their local share is expected to exceed their "equalization base." Another 10 districts are expected to receive Basic State Aid for their elementary pupils only. (Their local shares are expected to fully cover high school equalization base costs, but not K-8 equalization base costs, which are computed separately under the formula.)

The actual local tax rate for schools may be lower than the QTR, or higher if the district is allowed to budget for items outside of its "Revenue Control Limit" (RCL) under A.R.S. § 15-910. It also may be higher if the district participates in a Career Ladder program pursuant to A.R.S. § 15-918, or in an Optional Performance Incentive Program pursuant to A.R.S. § 15-919.

Starting in FY 2000, equalization funding for charter schools will consist only of Base Support Level (BSL) and "Additional Assistance" funding. This change is required by the Students FIRST legislation (Laws 1998, Chapter 1, 5<sup>th</sup> Special Session), and combines formerly separate TSL, CORL, Soft Capital, and "Additional Capital Assistance" funding into the new "Additional Assistance" amount. Additional Assistance for both FY 2000 and FY 2001 is set at \$1,204.67 per pupil for Grades K-8 and at \$1,404.01 per pupil for Grades 9-12 (A.R.S. § 15-185B5). Charter schools receive all of their funding through Basic State Aid, since they do not have authority to generate funding through local property tax levies.

Section 58 of the Students FIRST legislation allows district-sponsored charter schools to continue to receive formula transportation (TSL) funding through FY 2000 if they reduce their Additional Assistance amount by \$174 per pupil (the transportation funding amount per pupil that was incorporated into "Additional Assistance"). This option is utilized by district-sponsored charter schools that currently generate more than \$174 per pupil in transportation funding, on average, under the TSL formula.

The appropriations for Basic State Aid for FY 2000 and FY 2001 are based on the computations shown in *Tables 1 and 2*.

Total Equalization Base (school districts including district charters)	\$3,085,628,500
Subtract: Qualifying Levy	<u>(1,105,468,800)</u>
FY 2001 Base Equalization Requirement	\$1,980,159,700
Add:	
Sudden Growth (Current Year Funding, @A.R.S. § 15-948)	64,782,600
State Board Sponsored Charter Schools	170,540,700
Dept. of Corrections and Dept. of Juvenile Corrections Education (A.R.S. § 15-1371 & 15-1372)	4,408,900
Miscellaneous Programs	2,350,600
County Equalization	<u>(147,081,200)</u>
Subtotal - Requirement before Legislative Changes	\$2,075,161,300
Changes in Chapter 4, 1 <sup>st</sup> Special Session:	
Base Level Increase	29,247,500
Special Education Group B Weight Increases	14,743,100
K-3 Weight Increase	6,533,500
Optional 200 Day School Year	129,000
FY 2000 Basic State Aid Appropriation	<u>\$ 2,125,814,400</u>
General Fund	\$2,057,145,200
Permanent State School Fund	\$ 68,669,200

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**Table 2: FY 2001 Basic State Aid Summary** (excluding Additional or Triggered Appropriations)

Total Equalization Base (school districts including district charters)	\$3,177,030,200
Subtract: Qualifying Levy	<u>(1,140,692,700)</u>
FY 2001 Base Equalization Requirement	\$2,036,337,500
Add:	
Sudden Growth (Current Year Funding, @A.R.S. § 15-948)	60,341,600
State Board Sponsored Charter Schools	207,028,300
Dept. of Corrections and Dept. of Juvenile Corrections Education (A.R.S. § § 15-1371 & 15-1372)	4,707,200
Miscellaneous Programs	2,350,600
County Equalization	<u>(154,854,300)</u>
Subtotal - Requirement before Legislative Changes	\$2,155,910,900
Changes in Chapter 4, 1 <sup>st</sup> Special Session: (new changes for FY 2001 only)	
Base Level Increase (\$25.67 per unweighted pupil)	27,855,300
K-3 Weight Increase	<u>7,067,300</u>
FY 2000 Basic State Aid Appropriation	<u>\$2,190,833,500</u>
General Fund	\$2,119,697,400
Permanent State School Fund	\$ 71,136,100

**Major Changes to Basic State Aid**

Student Growth — The approved amount for FY 2000 includes an increase of \$100,062,300 for student growth in school districts and charter schools. Of this amount, \$51,114,700 is for school district and district-sponsored charter school Average Daily Membership (ADM) growth, and \$48,947,600 is for State Board-sponsored charter school ADM growth.

For FY 2001, the approved amount includes an increase of \$72,116,100 for student growth—\$23,168,500 for school districts and district-sponsored charter schools and \$48,947,600 for State Board-sponsored charter schools.

Under the Basic State Aid formula, the non-charter portion of a school district’s formula funding entitlement initially is based on its ADM count from the prior academic year, but later may be increased with “Growth” (formerly “Sudden Growth”) funding if that count goes up in the current academic year. Growth funding, however, is not provided for the capital and transportation portions of the Basic State Aid formula, which are paid on a prior year ADM basis only. In contrast, Basic State Aid funding for charter schools (both district-sponsored and State Board-

sponsored) is based solely on current year ADM counts, and fully funds capital and transportation formula components on a current year ADM basis (though subsumed under “Additional Assistance” starting in FY 2000).

As shown in *Table 3*, the approved FY 2000 amount assumes a 2.9% increase in the total statewide ADM count for academic year 1998-1999 and an additional 2.8% increase for academic year 1999-2000. (Both will affect the cost of Basic State Aid in FY 2000.) The approved FY 2001 amount assumes the same 2.8% increase for academic year 1999-2000, and an additional 2.6% increase for academic year 2000-2001.

The estimated ADM breakdown shown in *Table 3* for academic year 1998-1999 equals 766,127 district non-charter pupils, 5,127 district charter pupils and 28,093 state board charter pupils—for a total ADM count of 799,347. For academic year 1999-2000 the estimated breakdown shown is 781,005 district non-charter pupils, 5,383 district charter pupils and 35,116 state board charter pupils—for a total ADM count of 821,504. For academic year 2000-2001 the estimated breakdown is 794,752 district

**Table 3: Average Daily Membership (ADM) Students by Academic Year**

Academic Year	School Districts	District-Sponsored Charter Schools	State Board-Sponsored Charter Schools	Grand Total	Increase	% Increase
1992	624,761	0	0	624,761	19,998	3.3
1993	646,798	0	0	646,798	22,037	3.5
1994	669,742	0	0	669,742	22,944	3.5
1995	695,054	0	0	695,054	25,312	3.8
1996	716,516	524	6,897	723,937	28,883	4.2
1997	737,606	3,301	13,543	754,450	30,513	4.2
1998	751,104	4,687	20,804	776,595	22,145	2.9
1999 est.	766,127	5,127	28,093	799,347	22,752	2.9
<b>2000 est.</b>	<b>781,005</b>	<b>5,383</b>	<b>35,116</b>	<b>821,504</b>	<b>22,157</b>	<b>2.8</b>
<b>2001 est.</b>	<b>794,752</b>	<b>5,652</b>	<b>42,139</b>	<b>842,543</b>	<b>21,039</b>	<b>2.6</b>

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non-charter pupils, 5,652 district charter pupils and 42,139 state board charter pupils—for a total ADM count of 842,543. Basic State Aid costs for FY 2000 and FY 2001 will be based on actual ADM counts rather than the estimates shown in *Table 3*.

**Base Level Increase** — The Education ORB increases the per pupil base level amount defined in A.R.S. § 15-901B, from \$2,532.60 in FY 1999 to \$2,559.93 in FY 2000 (an increase of \$27.33 per unweighted pupil). For FY 2001, it further increases the base level to \$2,585.60 (an additional increase of \$25.67). The per pupil base level amount serves as the starting point for computing BSL entitlements for school districts and charter schools.

The JLBC Staff estimates that the FY 2000 base level increase will have a total state cost of \$29,247,500, of which \$27,656,800 is for school districts and district-sponsored charter schools (including \$709,900 for “Growth”), \$1,352,400 is for state board-sponsored charter schools, and \$238,300 is for special education vouchers and other miscellaneous programs that also receive funding that is tied to the K-12 base level.

For the FY 2001 base level increase (\$25.67), the JLBC Staff estimates a total state cost of \$27,855,300. (This does not include the FY 2001 cost of continuing the \$27.33 per pupil base level increase from FY 2000, which is estimated at \$30,124,900.) Of this amount, \$26,072,200 is for school districts and district-sponsored charter schools (including \$634,200 for “Growth”), \$1,543,900 is for state board-sponsored charter schools, and \$239,200 is for special education vouchers and other miscellaneous programs

In addition, Laws 1999, Chapter 5, 1st Special Session appropriated up to \$40,000,000 (in 2 \$20,000,000 amounts) from the General Fund for additional base level increases. This appropriation, however, is contingent on the amount of General Fund revenues available in

FY 2000. Prior to September 1, 1999, JLBC and OSPB will calculate total revenues and determine if sufficient monies are available to trigger the appropriation. (*For more information on this and other triggered appropriations see the summary of "Revenue and Spending Triggers" at the front of this report.*)

**Special Education Group B Weight Increases** — Starting in FY 2000, the Education ORB also increases some of the special education "Group B" weights that are defined in A.R.S. § 15-943. As shown in *Table 4*, all weights that are not already at levels reported in the December 1997 special education cost study are increased to cost study levels by that bill. The JLBC Staff estimates the cost of these changes at \$14,743,100, of which \$13,526,300 is for school districts and district-sponsored charter schools (including \$642,200 for “Growth”), \$1,209,300 for state board-sponsored charter schools, and \$7,500 for special education vouchers. The JLBC Staff estimates the FY 2001 cost of continuing to fund the higher weights at \$15,762,400—a higher amount than for FY 2000 because of expected growth in the number of special education pupils statewide that year.

Special education Group B weights are applied to a school district or charter school's unweighted ADM student count prior to its being multiplied by the base level amount discussed above. This has the effect of increasing the equalization funding entitlement of the school district that the special education pupil attends.

**K-3 Group B Weight Increases** — Also increased in the Education ORB is the Group B weight that currently is provided in A.R.S. § 15-943.B for pupils in Kindergarten through Grade 3. For FY 2000 this weight is increased from 0.04 to 0.05, and for FY 2001 it is further increased from 0.05 to 0.06. The approved FY 2000 amount includes an increase of \$6,533,500 for changing the weight to 0.05. The approved FY 2001 amount includes an additional \$7,067,300 to further increase the weight to 0.06. (The approved FY 2001 amount also includes

**Table 4: Special Education Group B Weight Summary**  
(weights changed for FY 2000 are in bold print)

<b>Funding Category</b>	<b>FY 1999 Weight</b>	<b>FY 2000 Weight</b>	<b>Cost Study Weight</b>
Hearing Impairment	3.341	3.341	3.341
Multiple Disabilities-Resource	1.995	<b>4.235</b>	4.235
Multiple Disabilities-Self Contained	5.015	5.015	5.015
Multiple Disabilities-Severe Sensory Impairment	6.025	6.025	6.025
Orthopedic Impairment-Resource	1.744	<b>3.868</b>	3.868
Orthopedic Impairment-Self Contained	5.641	5.641	5.641
Preschool Severe Delay	4.979	4.979	4.979
Emotional Disabilities-Separate Facility, Private School	2.633	<b>4.127</b>	4.127
Moderate Mental Retardation	2.808	<b>4.244</b>	4.244
Visual Impairment	4.832	4.832	4.832

Note: Cost study weights for combined categories have been imputed by JLBC Staff based on cost study data.

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\$6,729,500 to maintain the weight increase from FY 2000.)

Growth in School District Assessed Valuation — Growth in school district net assessed valuation (NAV) increases the amount of formula funding that is generated locally, thereby reducing the need for Basic State Aid. The approved FY 2000 amount includes a reduction of \$(73,019,300), of which \$(6,786,700) is attributable to the county equalization tax, based upon a projected 6.7% increase in school district NAV for FY 2000. The approved FY 2001 amount includes an additional reduction of \$(55,453,000), of which \$(5,889,700) is attributable to the county equalization tax, based on projected NAV growth of 5% for FY 2001. These estimates do not include the effect of new “Truth in Taxation” laws upon “local share” funding for schools, which is discussed below.

“Truth in Taxation” — The approved amounts for Basic State Aid include an increase of \$17,843,400 in FY 2000 and a further increase of \$11,038,400 in FY 2001 for “Truth in Taxation” (TNT). These amounts relate to Laws 1998, Chapter 153, which requires an annual adjusting of the QTR and County Equalization “local share” tax rates in order to compensate for changes in property values for existing properties. Those adjustments are intended to keep tax levies on existing properties from increasing automatically whenever their assessed value increases.

Tax rates higher than those allowed under the TNT formula are permissible, but only if 1) the Joint Legislative Tax Committee (JLTC) holds a hearing on the issue on or before February 28<sup>th</sup> of the preceding fiscal year, 2) the JLTC provides adequate public notice of the hearing, and 3) the Legislature approves the higher rates with a 2/3rds roll call vote. No such process and vote occurred during the 1999 Legislative Session.

Because the assessed value of existing properties is expected to grow in both FY 2000 and FY 2001 and because a 2/3rds vote to override TNT in those years did not occur, a lowering of the QTR and County Equalization rates is required for FY 2000, and a further lowering is required for FY 2001. As of March 24, 1999, the JLBC reported those rates as follows:

FY 2000: QTR = \$2.17 or \$4.33 (depending upon the type of school district) per \$100 of NAV; County Equalization = \$0.52 per \$100 of NAV.

FY 2001: QTR = \$2.14 or \$4.29 (depending upon the type of school district) per \$100 of NAV; County Equalization rate = \$0.52 per \$100 of NAV. (All rates reported here and above have been rounded to the nearest penny.)

Endowment Earnings — The approved FY 2000 amount includes an estimated \$68,669,200 in total “endowment earnings” from the Permanent State Common School Fund—a decrease of \$(5,264,800) relative to FY 1999. For FY 2001, the approved amount includes an estimated \$71,136,100 in total endowment earnings—an increase of \$2,466,900 relative to FY 2000.

Endowment earnings consist of interest on securities held in the Permanent State Common School Fund and receipts from leases of state lands. They are used solely to help fund the cost of Basic State Aid, and therefore reduce the General Fund cost of Basic State Aid on a dollar for dollar basis.

The estimated endowment earnings decrease of \$(5,264,800) for FY 2000 and estimated increase of \$2,466,900 for FY 2001 both reflect changes in allowable distributions out of the fund under Proposition 102. That proposition—passed by Arizona voters in November of 1998—allows the State Treasurer now to invest Permanent State Common School Fund assets in the stock market. In addition, it altered the formula for determining the “expendable” portion of endowment earnings (the portion available to help fund Basic State Aid) with the intent of preserving the value of *non*-expendable assets in the fund on an inflation-adjusted basis. The latter change is responsible for the estimated \$(5,264,800) reduction in expendable endowment earning monies for FY 2000, and the \$5,264,800 General Fund increase that is included in the approved FY 2000 amount as a result.

For FY 2001, an increased General Fund savings due to endowment earnings growth is once again expected—even under the new formula. The approved FY 2001 amount therefore includes a General Fund reduction of \$(2,466,900) relative to FY 2000 due to an estimated \$2,466,900 increase in expendable endowment earnings for FY 2001.

The approved amounts for FY 2000 and FY 2001 assume that endowment earnings will *not* be used as a funding source for either Students FIRST revenue bond debt service payments or for the New School Facilities Fund during those years. A.R.S. § 37-521 requires that endowment earnings be used first for debt service on Students FIRST revenue bonds (if any), after which they are subject to appropriation to the New School Facilities Fund, or (if not used by the first 2 options) are appropriated for Basic State Aid. Since the approved amounts for the School Facilities Board for FY 2000 and FY 2001 do *not* involve revenue bonding and do not appropriate any endowment earnings monies to the New School Facilities Fund, all endowment earnings for those years are appropriated to help fund Basic State Aid.

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Career Ladders — The approved FY 2000 amount includes an increase of \$5,700 for Career Ladder “step increases,” while the approved FY 2001 includes no funding for step increases. The FY 2000 increase will be used to cover a step increase for 1 small district that will move to the highest phase of the program during the year. All other participating districts already are at the highest (most expensive) phase. A.R.S. § 15-918 allows Career Ladder districts to increase their Base Level by the following percentages stated in statute, depending on the implementation phase that the district is in:

<u>Phase</u>	<u>Increase</u>
Development	0.5%
Evaluation	1.0%
Placement I	2.5%
Placement II	4.0%
Effective Career Ladder	5.5%

Total Career Ladder spending for FY 2000 is estimated at \$46,906,600, with \$30,734,200 funded from State Aid and \$16,172,400 from the local QTR levy. For FY 2001, total Career Ladder spending is estimated at \$47,891,600, with \$31,379,600 funded from State Aid and \$16,512,000 from the local QTR levy.

The Career Ladder program is an optional program, with 29 districts currently participating. The approved amount includes no funding for additional districts to participate in the program.

District-Sponsored Charter Schools — The Education ORB makes some permanent law changes regarding Basic State Aid funding to district-sponsored charter schools. One is that “double funding” is prohibited for district non-charter schools that switch to charter school status by becoming chartered by another school district. Prior to this change double funding was possible for them during their first year of operation as a charter school because their pupils would be included in both the “prior year ADM” count of the original school district and the “current year ADM” count of the new school district. (School districts receive state aid primarily based on their *prior* year ADM count, whereas charter schools receive state aid based on their *current* year ADM count.) Since this “double funding” practice currently is not widespread, and the extent to which it would occur in the future is unknown, the approved FY 2000 and FY 2001 amounts for Basic State Aid do not include an estimated savings for this change.

A related statutory change in the Education ORB, starting in FY 2000, is that Rapid Decline funding will no longer be allowed if caused by a district school becoming chartered by another district. The Rapid Decline portion of the Basic State Aid formula (A.R.S. § 15-942) allows a school district or charter school to use an adjusted prior

year count for formula funding purposes if it experiences a rapid loss of pupils. This provides the district with more state aid than it would receive if funded on its true (unadjusted) prior year ADM count. The Education ORB changes the Rapid Decline formula, starting in FY 2000, to exclude ADM losses that result from a district non-charter school becoming chartered by another district. The approved amounts do not include funding for this item, since its effect upon the cost of Rapid Decline in the future is unknown.

A third Education ORB change regarding charter school Basic State Aid funding is that school districts that sponsor charter schools may (starting in FY 2000) compute separate weighted student counts for their charter versus non-charter pupils. This will enable school districts that sponsor charter schools to remain eligible for a small school district weight pursuant to A.R.S. § 15-943, as long as they continue to have fewer than 600 *non*-charter pupils. The approved amounts for FY 2000 and FY 2001 do not include additional funding for this change.

200-Day School Year — The Education ORB also amends A.R.S. § 15-902.02 by changing from 3% to 5% the amount by which a school district or charter school may increase its base support level if it operates on a 200-day school year basis. The approved FY 2000 amount includes an increase of \$129,000 for this change and the approved FY 2001 amount includes \$133,000 to maintain the change. During FY 1999, a total of 5 charter schools took advantage of the 3% base level increase that is allowed under current law, at a total estimated cost of \$181,900.

Additional State Aid to Schools — This program (which is funded totally from the General Fund) funds the “homeowner's rebate,” whereby the state pays 1) 35% [up to \$500] of every homeowner's primary property tax levy for school districts [A.R.S. § 15-972], and 2) that portion of any homeowner's overall primary property tax levy that exceeds 1% of the property's full cash value [Arizona Constitution, Article IX, § 18].

The approved FY 2000 amount assumes a cost of \$185,746,700 for the 35% rebate (an increase of \$13,057,500) and a cost of \$2,281,300 for the 1% constitutional cap (an increase of \$715,100). These estimates are based on a projected increase of 9.2% in class 5 NAV, and an additional decrease of (1.2)% in the average primary tax rate.

For FY 2001, the approved amount assumes a cost of \$196,678,400 for the 35% rebate (a further increase of \$10,931,700) and a cost of \$2,544,500 (a further increase of \$263,200) for the 1% constitutional cap. These estimates are based on a projected further increase of 7% in class 5 NAV, and a decrease of (1)% in the average primary tax rate.

## DEPARTMENT OF EDUCATION – ASSISTANCE TO SCHOOLS (Cont'd)

**Assistance to School Districts for Children of State Employees** — The approved FY 2000 amount includes a \$(20,300) decrease based on department estimates. This decrease is continued in FY 2001. The program, which receives General Fund monies only, supplements Basic State Aid funding for school districts that educate pupils whose parents are employed and domiciled at certain state institutions located within the school district's boundaries, pursuant to A.R.S. § 15-976.

**Certificates of Educational Convenience (CEC's)** — The approved FY 2000 amount (all from the General Fund) includes a decrease of \$(1,126,100) for CEC's based on department estimates. For FY 2001, the approved amount (all from the General Fund) includes an increase of \$360,800 above FY 2000, again based on department estimates. CEC's allow students to attend school in a district other than the one they live in if they are placed there by an authorized state or federal agency. This includes placement into a 1) rehabilitative or corrective institution, 2) foster home or child care agency or institution which is licensed and supervised by the Department of Economic Security (DES) or the Department of Health Services (DHS), or 3) residential facility operated or supported by DES or DHS [A.R.S. § 15-825]. CEC's also provide supplemental special education funding for school districts that provide special education services to out-of-district children.

**Permanent Special Education Institutional Voucher Fund** — The approved FY 2000 amount (all from the General Fund) includes an increase of \$2,425,500 and the approved FY 2001 amount (all from the General Fund) includes a further increase of \$607,100 for special education voucher costs based on our estimates. The program 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) developmentally disabled programs operated by DES [A.R.S. § 15-1202].

**Special Education Placement and Residential Education Voucher Fund** — The approved FY 2000 amount (all from the General Fund) includes 1 FTE Position (no change) and a total of \$3,292,700 (\$58,500-operating; \$3,234,200-pass through funding to schools) for the program—an increase of \$1,786,900. The approved FY 2001 amount (all from the General Fund) includes 1 FTE Position (no change) and a total of \$3,855,500 (\$59,800-operating; \$3,795,700-pass through funding to schools). The program 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 (Department of Juvenile Corrections, DES, DHS, or the Administrative Office of the Courts) [A.R.S. § 15-1182].

**Accountability Measures** — The approved FY 2000 and FY 2001 amounts (which are the same and are totally funded from the General Fund) maintain funding for the program at the FY 1999 level. The program (which is authorized under A.R.S. § 15-747) allows school districts and charter schools to increase the “base level” defined in A.R.S. § 15-901.B by amounts that are linked to statewide pupil achievement on standardized tests and to parent responses on a quality survey. This has the effect of increasing the amount of funding that school districts and charter schools receive under the K-12 equalization funding formula—through which the funding is disbursed.

**Adult Education Assistance** — The approved FY 2000 amount (all from the General Fund) includes 5.8 FTE Positions (no change) and a total of \$4,581,200 (\$372,000-operating; \$4,209,200-pass through funding to schools), an increase of \$500. The approved FY 2001 amount (all from the General Fund) includes 5.8 FTE Positions (again no change) and a total of \$4,586,800 (\$377,600-operating; \$4,209,200-pass through funding to schools), a further increase of \$5,600. The program funds immigrant education and adult basic education programs that receive funding through the department pursuant to A.R.S. § 15-234.

**Arizona Teacher Evaluation** — The approved FY 2000 amount (all from the General Fund) includes 2 FTE Positions (no change) and a total of \$200,500 (all of which is for operating expenditures; an increase of \$1,200). The approved FY 2001 amount (all from the General Fund) includes 2 FTE Positions (again no change) and a total of \$202,200 (all for operating expenditures; a further increase of \$1,700). This funding is for administration of the following programs: 1) the Arizona Teacher Proficiency Examination (ATPE) [A.R.S. § 15-533], 2) the State of Arizona and United States Constitutions examination [A.R.S. § 15-532], and 3) the Alternative Secondary Certification Program [Arizona Administrative Code R7-2-602].

**Career Ladder Administration** — The approved FY 2000 amount (all from the General Fund) includes 1 FTE Position (no change) and a total of \$128,900—a decrease of \$(2,500). The approved FY 2001 amount (all from the General Fund) includes 1 FTE Position (again no change) and a total of \$130,400—an increase of \$1,500 above FY 2000. These amounts are for state-level administration of the Career Ladder program, pursuant to Laws 1990, Chapter 319.

**Charter Schools Stimulus Fund** — No monies are appropriated to the fund for either FY 2000 or FY 2001 (a decrease of \$1,000,000 relative to FY 1999). The fund initially was established to encourage the establishment of charter schools pursuant to A.R.S. § 15-188. Since Arizona charter schools have grown rapidly since FY 1996, the fund now is considered unnecessary.

## DEPARTMENT OF EDUCATION – ASSISTANCE TO SCHOOLS (Cont'd)

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**Chemical Abuse** — The approved FY 2000 amount (all from the General Fund) includes 3 FTE Positions (no change) and a total of \$858,800 (\$190,800-operating; \$668,000-pass through funding to schools)—a decrease of \$(1,600). The approved FY 2001 amount (all from the General Fund) includes 3 FTE Positions (again no change) and a total of \$862,200 (\$194,200-operating; \$668,000-pass through to schools)—an increase of \$3,400 above FY 2000. The program funds chemical abuse prevention programs for students in grades K-12 pursuant to A.R.S. § 15-712.

**Extended School Year** — The approved FY 2000 and FY 2001 amounts (which are the same and are entirely from the General Fund) maintain the FY 1999 funding level for providing extended school year programs for handicapped students, as required by A.R.S. § 15-881.

**Family Literacy** — The approved FY 2000 and FY 2001 amounts (which are the same and are entirely from the General Fund) maintain funding for the program at its FY 1999 level. Pursuant to A.R.S. § 15-191.01, the program seeks to increase the basic academic and literacy skills of undereducated low-income parents and their preschool children.

**Gifted Support** — The approved FY 2000 amount (all from the General Fund) includes 2 FTE Positions (no change) and a total of \$1,294,400 (\$101,900-operating; \$1,192,500-pass through funding to schools)—a decrease of \$(1,900). The approved FY 2001 amount (all from the General Fund) includes 2 FTE Positions (again no change) and a total of \$1,296,800 (\$104,300-operating; \$1,192,500-pass through funding to schools)—an increase of \$2,400 above FY 2000. This program is authorized by A.R.S. § 15-772, which allows school districts to apply for funding for gifted programs equal to \$55 per pupil for 3% of the district's student count, or \$1,000, whichever is more.

**Optional Performance Incentive Programs** — The approved FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) maintain funding for the program at its FY 1999 level. The program, which is authorized under A.R.S. § 15-919.02, serves as an alternative to the Career Ladder program. Optional Performance Incentive Programs utilize measures of quality including parental satisfaction or rating of educational quality, teacher job satisfaction or rating of support, and pupil satisfaction with the quality of education being received.

**Parental Choice for Reading Success** — The FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) maintain funding for the program at its FY 1999 level. This funding is for training

and continued development of teachers in methods of research based systematic phonics instruction, pursuant to A.R.S. § 15-718.

**Residential Placement** — The FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) maintain funding for residential placement at the FY 1999 level. The funding is for training school districts to identify students that require residential placement and for providing a "Residential Emergency Fund" for use when DES or DHS lacks funds to place students (Laws 1991, Chapter 173).

**School Report Cards** — The approved FY 2000 amount (all from the General Fund) includes 3 FTE Positions (no change) and a total of \$486,100 (a decrease of \$(500)) for school report cards. The approved FY 2001 amount (all from the General Fund) includes 3 FTE Positions (again no change) and a total of \$488,900 (an increase of \$2,800 above FY 2000) for the program. The school report card program is required by A.R.S. § 15-746. Under it, each school supplies annual information to the department regarding school goals and student achievement, and the department compiles and publishes that information in paper and electronic "school report cards".

**School Safety Program** — The FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) maintain funding for the program at the FY 1999 level of \$7,000,000. This funding is for placing peace officers and juvenile probation officers in schools pursuant to A.R.S. § 15-154. Section 1 of the Education ORB amends A.R.S. § 15-154 to remove a non-supplanting requirement for the program.

**Small Pass-Through Programs** — The approved FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) include for each year \$50,000 for the Academic Contest Fund, \$82,400 for the Academic Decathlon, \$50,000 for the Arizona Geographic Alliance, \$40,000 for the Arizona Humanities Council, \$25,200 for the Arizona Principals' Academy, \$234,000 for Arizona School Service Through Education Technology, \$50,000 for Project Citizen and \$50,000 for the Economic Academic Council.

**State Block Grant for Early Childhood Education** — The approved FY 2000 amount (all from the General Fund) includes 5.7 FTE Positions (no change) and a total of \$19,489,300 (\$395,800-operating; \$19,093,500-pass through to schools) (an increase of \$700) for the program. The approved FY 2001 amount (all from the General Fund) includes 5.7 FTE Positions (again no change) and a total of \$19,494,800 (\$401,300-operating; \$19,093,500-pass through to schools) (an increase of \$5,500) for the program. The program provides block grants to school

## DEPARTMENT OF EDUCATION – ASSISTANCE TO SCHOOLS (Cont'd)

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districts and charter schools for efforts aimed at improving the academic achievement of pupils in preschool through Grade 3, pursuant to A.R.S. § 15-1251. Section 14 of the Education ORB postpones until July 1, 2000 a deadline by which preschool providers must become accredited if they wish to participate in the program.

**State Block Grant for Vocational Education** — The approved FY 2000 amount (all from the General Fund) includes 34.3 FTE Positions (no change) and a total of \$11,089,000 (\$1,837,700-operating; \$9,251,300-pass through to schools) (a decrease of \$(10,800) for the program). The approved FY 2001 amount (all from the General Fund) includes 34.3 FTE Positions (again no change) and a total of \$11,123,600 (\$1,872,300-operating; \$9,251,300-pass through to schools)—an increase of \$34,600 above FY 2000. The program provides block grants to school districts and charter schools that have vocational education programs.

**Vocational Education Extended Year** — The approved FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) maintain funding for this item at its FY 1999 level of \$600,000. This funding is to enable students to attend an extended year or summer school program in a joint technological education district, such as the East Valley Institute of Technology (EVIT), pursuant to A.R.S. § 15-783.02. Section 5 of the Education ORB amends A.R.S. § 15-783.02 by increasing the rate of payment for such students to \$26 per day for full-time students and \$13 per day for part-time students.

**Youth Support Research** — The approved FY 2000 and FY 2001 amounts (which are the same and are entirely funded from the General Fund) maintain funding for the program at its FY 1999 level. The goal of the program is to increase school performance and reduce gang activity through the use of various student incentives.

**Additional Appropriations: Education; Department of Corrections (Chapter 233)** — This bill amends A.R.S. § 15-1372 in order to increase formula funding for education programs in the Department of Corrections (DOC). It also appropriates from the General Fund \$200,000 in FY 2000 and another \$200,000 in FY 2001 to pay for the formula changes. Under A.R.S. § 15-1372A, DOC is required to provide educational services for pupils who are under 18 years of age and pupils with disabilities who are age 21 and under. Funding that is generated through the formula in A.R.S. § 15-1372 is disbursed to DOC in the form of Basic State Aid.

**Non-resident Special Education Pupils; Costs (Chapter 243)** — This bill amends A.R.S. § 15-824 in order to qualify school districts for additional funding if they educate non-resident special education pupils who are

placed within their boundaries by a state agency, such as the Department of Economic Security. It also appropriates from the General Fund \$150,000 in FY 2000 and another \$150,000 in FY 2001 in order to pay for this statutory change. In order to qualify for additional funding under the bill, school districts must submit documentation showing that their actual costs for educating such pupils exceed the funding amount provided under A.R.S. § 15-824G. The additional funding provided by the bill will be disbursed as Basic State Aid.

**Additional Legislation: Education; Jails; Correctional Facilities (Chapter 242)** — This bill is similar to Chapter 233 (described above) in that it amends a funding formula for education programs that serve individuals who are incarcerated. The difference is that this bill pertains to individuals who are incarcerated in county jails whereas Chapter 233 pertains to persons incarcerated in state prisons.

Unlike Chapter 233, this bill does not include an appropriation to pay for the formula changes in it. The estimated cost of those changes (which appear in A.R.S. § 15-913.01) is \$272,600 in FY 2000 and \$350,000 in FY 2001.

**Prior Year Reversions: Basic State Aid for Education Carry-Forward** — Laws 1999, Chapter 6, 1<sup>st</sup> Special Session reverted \$67,600 in Basic State Aid operating funding that remained unused since FY 1993. The department was unsure of the origin of the funds, and did not plan to use them in future years.

**Family Literacy Pilot Program** — Laws 1999, Chapter 6, 1<sup>st</sup> Special Session reverted \$21,500 in unused funds Family Literacy Pilot Program funding. The funding is no longer needed because the program gained permanent status in FY 1999. Therefore it now receives funding as a regular program through the General Appropriation Act.

**At-Risk Preschool Program** — Laws 1999, Chapter 6, 1<sup>st</sup> Special Session reverted \$56,100 in unused monies from the At-Risk Preschool Program. The monies are not needed because the program no longer exists as a separate entity. Since FY 1996, state funding for preschool and other early childhood programs has been appropriated through the State Block Grant for Early Childhood Education program.