

Department of Education

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	164.9	171.9	171.9 ^{1/}
Personal Services	4,826,800	5,463,800	5,463,800
Employee Related Expenditures	1,734,700	1,962,600	2,088,000
Professional and Outside Services	564,700	427,700	427,700
Travel - In State	17,300	32,800	32,800
Travel - Out of State	21,900	23,600	23,600
Other Operating Expenditures	1,718,900	4,938,600	5,270,300
Equipment	164,000	68,500	68,500
OPERATING SUBTOTAL	9,048,300	12,917,600	13,374,700 ^{2/-4/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,621,149,600	3,736,092,000	3,830,841,900 ^{5/-8/}
State Aid Supplement	50,000,000	50,000,000	50,000,000 ^{9/ 10/}
Additional Teacher Salary Increase	0	0	34,000,000 ^{11/-19/}
Results-Based Funding	0	0	37,600,000
Rural Assistance	0	0	2,600,000 ^{20/ 21/}
Special Education Fund	32,211,300	32,242,100	32,242,100
Other State Aid to Districts	229,800	983,900	983,900
Current-Year Funding Backfill	0	31,000,000	0
Former District-Sponsored Charter Schools	0	1,148,000	0
Property Tax Relief			
Additional State Aid - Homeowner's Rebate	353,649,100	391,456,100	386,215,500
Additional State Aid - 1% Cap	13,034,900	12,237,700	24,330,500
Non-Formula Programs			
Accountability and Achievement Testing	16,422,400	16,420,800	16,423,700 ^{22/}
Adult Education	4,485,300	4,498,200	4,504,200
Alternative Teacher Development Program	500,000	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
Broadband Expansion	0	0	3,000,000
Code Writers Initiative Pilot Program	0	500,000	0
College Credit by Examination Incentive Program	0	0	5,000,000
Early Literacy	0	0	8,000,000
English Learner Administration	6,507,900	6,495,000	6,519,000 ^{23/}
Geographic Literacy	0	100,000	100,000 ^{24/}
Jobs for Arizona Graduates	0	0	100,000
JTED Completion Grants	0	0	1,000,000 ^{25/-27/}
JTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 ^{28/}
K-3 Reading	39,917,300	0	0
School Safety Program	2,469,700	3,645,600	4,147,600
State Block Grant for Vocational Education	11,576,300	11,576,300	11,576,300
Teacher Certification	1,771,500	1,828,100	1,847,300
Teacher Professional Development Pilot	0	0	300,000
Tribal College Dual Enrollment Program Fund	0	250,000	250,000
AGENCY TOTAL	4,168,933,800	4,319,851,800	4,481,417,100 ^{29/-32/}

	FY 2016 ACTUAL	FY 2017 ESTIMATE	FY 2018 APPROVED
FUND SOURCES			
General Fund	3,939,909,800	4,086,457,000	4,226,958,400
<u>Other Appropriated Funds</u>			
Automation Projects Fund	0	0	3,000,000
Budget Stabilization Fund	0	0	2,600,000
Department of Education Empowerment Scholarship Account Fund	398,300	797,900	1,202,000
Department of Education Professional Development Revolving Fund	276,300	2,700,000	2,700,000
Permanent State School Fund	219,440,500	219,804,200	235,343,500
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	0	500,000	0
Teacher Certification Fund	1,908,900	2,342,700	2,363,200
Tribal College Dual Enrollment Program Fund	0	250,000	250,000
SUBTOTAL - Other Appropriated Funds	229,024,000	233,394,800	254,458,700
SUBTOTAL - Appropriated Funds	4,168,933,800	4,319,851,800	4,481,417,100
Other Non-Appropriated Funds	603,571,700	606,781,700	693,128,000
Federal Funds	1,124,034,400	1,159,279,200	1,159,279,200
TOTAL - ALL SOURCES	5,896,539,900	6,085,912,700	6,333,824,300

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. In FY 2017, the department oversaw 236 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.

- 1/ Includes 60.5 GF and 24.0 OF FTE Positions funded from Special Line Items in FY 2018.
- 2/ 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. (General Appropriation Act footnote)
- 3/ 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 pursuant to A.R.S. § 15-211. (General Appropriation Act footnote)
- 4/ Before spending the monies appropriated by this section, the department shall submit an expenditure report for review by the Joint Legislative Budget Committee. (General Appropriation Act footnote pertaining to the \$400,000 appropriation for Empowerment Scholarship Account Administration)
- 5/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2016, Chapter 117. Laws 2017, Chapter 305 also appropriates \$930,727,700 in FY 2019 to reflect the deferral of FY 2018 payments.
- 6/ 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 \$235,343,500 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2018. (General Appropriation Act footnote)
- 7/ 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. (General Appropriation Act footnote)
- 8/ 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. (General Appropriation Act footnote)
- 9/ Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 annually for FY 2016 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 from the General Fund for school districts and charter schools conditional upon passage of Proposition 123 in May 2016. Note: Proposition 123 was approved.
- 10/ The Department of Education shall allocate the appropriated amount to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943, paragraph 2, subdivision (a) and increase the budget limits pursuant to A.R.S. § 15-947 accordingly. For the purposes of this subsection, the weighted student count for a school district that serves as the district of attendance for nonresident pupils shall be increased to include nonresident pupils who attend school in the school district. (Laws 2015, 1st Special Session, Chapter 1, Section 6 footnote)
- 11/ Each school district or charter school shall use its allocation from this line item only to increase the salary of each teacher who taught at an Arizona school district or charter school during the 2016-2017 school year and who teaches at the school district or charter school during the 2017-2018 school year by 1.06% in FY 2018. The 1.06% salary increase that a school district or charter school provides to each eligible teacher from this line item shall be in addition to any other salary increase that the school district or charter school would have provided to the teacher for the 2017-2018 school year apart from this line item. The 1.06% salary increase shall supplement and not supplant any salary increase that the school district or charter school would have provided to the teacher for the 2017-2018 school year apart from this line item. (General Appropriation Act footnote)
- 12/ The department of education shall use the appropriated amount to provide school districts and charter schools with funding for additional teacher salary increases for FY 2018. (General Appropriation Act footnote)

- 13/ On or before December 1, 2017, the department shall allocate to each school district and charter school in this state the amount of funding needed to increase by 1.06% the salary of each teacher who teaches at the school district or charter school during the 2017-2018 school year and who taught at an Arizona school district or charter school during the 2016-2017 school year, including the amount of funding needed to pay the employer share of related increases in employee-related expenses for the Arizona State Retirement System or other employee retirement systems and the Federal Insurance Contributions Act. The employer share of employee-related retirement system expenses for a teacher not participating in the Arizona State Retirement System may not exceed expenses for a teacher participating in the Arizona State Retirement System. The 1.06% salary increase for each eligible teacher shall be computed by the school district or charter school based on the teacher's teaching salary for the 2016-2017 school year. The department shall add the amount computed for each school district and charter school pursuant to this paragraph to the base support level that otherwise would be computed for the school district or charter school for FY 2018 pursuant to A.R.S. § 15-943 or 15-943.02. (General Appropriation Act footnote)
- 14/ The members of a school district governing board or a charter school governing body shall conduct a separate vote regarding the allocation of monies that it receives from this line item. It also shall notify teachers of the scheduled date and time of action of the board or body for this issue and shall transmit a notice of public hearing to the Department of Education for posting on the department's website at least 10 days before the hearing. If the school district or charter school maintains a website, the school district or charter school shall post on its website the notice of the public hearing. (General Appropriation Act footnote)
- 15/ The members of the governing board of a school district or the governing body of a charter school shall attest on the page of the school district's or charter school's FY 2018 budget that the members sign that the budget adopted by the school district or charter school for FY 2018 meets the requirements of this line item. This attestation shall also pertain to the following information provided by the school district or charter school regarding teachers who taught at an Arizona school district or charter school during the 2016-2017 school year and who teach at the school district or charter school during the 2017-2018 school year: the number of teachers, the total amount of teacher salaries for the 2016-2017 school year, the total amount of teacher salaries for the 2017-2018 school year apart from this line item, the total of the employer share of related increases in employee-related expenses for required contributions to employee retirement systems and the Federal Insurance Contributions Act and the total amount of funding needed to increase by 1.06% the salary of each teacher who teaches at the school district or charter school during the 2017-2018 school year and who taught at an Arizona school district or charter school during the 2016-2017 school year. (General Appropriation Act footnote)
- 16/ A school district or charter school shall submit to the Department of Education the school district's or charter school's adopted budget. The department shall distribute funding for additional teacher salary increases for FY 2018 based on the adopted budget. This calculation is subject to the independent annual audit of the school district or charter school pursuant to A.R.S. § 15-914. Any audit findings regarding the miscalculation of this line item shall be reported to the Department of Education and are subject to a budget correction pursuant to A.R.S. § 15-915. (General Appropriation Act footnote)
- 17/ Monies that a school district receives from this line item shall be included in the school district's general budget limit for the Maintenance and Operation Fund for FY 2018 pursuant to A.R.S. § 15-947. Monies that a joint technical education district receives from this line item shall be included in the joint technical education district's general budget limit for the Maintenance and Operation Fund for FY 2018 pursuant to A.R.S. § 15-947.01. (General Appropriation Act footnote)
- 18/ The Legislature and Governor intend for this appropriation to result in an increase in the compensation of Arizona's public schoolteachers for FY 2018 and intend to include funding for an additional 1.06% teacher salary increase in FY 2019. Appropriations for teacher salary increases in FY 2019 shall be distributed in the same manner as distributions for FY 2018. (General Appropriation Act footnote)
- 19/ For the purposes of this footnote, "teacher" means a person who was eligible to be included in the year-end full-time equivalent teacher count of a school district or charter school for the 2016-2017 school year in the Annual Financial Report of a school district or charter school for FY 2017 and who teaches at a school district or charter school during the 2017-2018 school year. Teacher does not include purchased services personnel or substitute teachers. (General Appropriation Act footnote)
- 20/ The appropriated amount shall be distributed on a pro rata basis based on average daily membership counts from the 2016-2017 school year to school districts and charter schools that are located in a county with a population of less than 500,000 persons according to the 2010 United States decennial census, except that a school district or charter school that primarily serves homeless or special needs pupils shall qualify for rural assistance funding regardless of the county in which it is located. (General Appropriation Act footnote)
- 21/ For the purposes of this section, "primarily serves homeless or special needs pupils" means that at least 80% of the pupils at the school district or charter school are homeless or qualify for a special education group B weight pursuant to A.R.S. § 15-943, paragraph 2, subdivision (b). (General Appropriation Act footnote)
- 22/ Before making any changes to the Achievement Testing program that will increase program costs, the Department of Education and the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review. (General Appropriation Act footnote)
- 23/ 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. (General Appropriation Act footnote)
- 24/ The Department of Education shall use the appropriated onetime amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in the state. The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)
- 25/ Monies appropriated for joint technical education district completion grants are intended to help fund program completion for students who complete at least 50% of a joint technical education program before graduating from high school and who successfully complete the joint technical education district program after graduating from high school. The Department of Education shall develop application procedures for the joint technical education district completion grant program. The procedures shall award grant funding only after an eligible student has successfully completed a joint technical education district program. (General Appropriation Act footnote)
- 26/ If the appropriated amount is insufficient to fund all grant requests from joint technical education districts, the Department of Education shall reduce grant amounts on a proportional basis in order to cap total statewide allocations at \$1,000,000. (General Appropriation Act footnote)
- 27/ The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations. (General Appropriation Act footnote)
- 28/ 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. (General Appropriation Act footnote)

Summary

ADE's FY 2018 General Fund budget spending increases by \$157,582,600, or 3.9% above the original FY 2017 appropriation. The budget includes both current law formula adjustments and policy changes for FY 2018, in addition to 2 technical "base adjustments" for FY 2017:

Base Adjustments

- An increase of \$16,950,200 for higher-than-budgeted 1% Cap costs for FY 2017 ("base adjustment").
- A decrease of \$(12,092,800) for lower-than-budgeted Homeowner's Rebate costs for FY 2017 ("base adjustment").

Current Law Formula Adjustments

- An increase of \$87,526,600 for 1.4% Average Daily Membership (ADM) growth in FY 2018.
- An increase of \$17,642,900 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$79,519,800 for a 1.31% inflator.
- A decrease of \$(58,082,100) for local property tax growth due to new construction offset by Homeowner's Rebate impact of \$6,852,200.
- A decrease of \$(16,091,600) to offset higher available endowment earnings under Proposition 123.
- A decrease of \$(31,000,000) to eliminate one-time funding for a current-year funding shortfall.
- A decrease of \$(18,100,000) to phase out remaining small school weight funding for multi-site charter schools.
- A decrease of \$(1,800,000) to complete the elimination of Joint Technical Education District (JTED) funding for students who have already graduated from high school (offset by \$1,000,000 policy issue listed below).
- A decrease of \$(1,148,000) to eliminate one-time funding for former district-sponsored charter schools.
- An increase of \$818,800 for Empowerment Scholarship Accounts (ESAs).
- An increase of \$5,000,000 for first-year funding of the College Credit by Examination Incentive program (A.R.S. § 15-249.06).
- An increase of \$135,400 for standard changes.

29/ After review by the Joint Legislative Budget Committee, in FY 2018, the department may use a portion of its FY 2018 state General Fund appropriations for Basic State Aid or Additional State Aid to fund a shortfall in funding for Basic State Aid or Additional State Aid, if any, that occurred in FY 2017. (General Appropriation Act footnote)

30/ 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. (General Appropriation Act footnote)

31/ 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. (General Appropriation Act footnote)

32/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

The current law formula adjustments total to \$71,274,000.

Policy Changes

- An increase of \$34,000,000 for a 1.06% teacher salary increase.
- An increase of \$37,600,000 for results-based funding.
- An increase of \$8,000,000 for early literacy funding.
- An increase of \$1,000,000 for JTED completion grants.
- An increase of \$500,000 for school resource officers.
- An increase of \$300,000 for a one-time teacher professional development pilot program.
- An increase of \$100,000 for a Jobs for Arizona's Graduates program.
- A decrease of \$(48,800) to transfer funding for Attorney General legal services for teacher certification enforcement hearings to the State Board of Education.

The policy changes total to \$81,451,200.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$172,721,300 in FY 2019 above FY 2018 and \$168,265,400 in FY 2020 above FY 2019. (See *Other Issues for more information.*)

Operating Budget

The budget includes \$13,374,700 and 87.4 FTE Positions in FY 2018 for the operating budget. These amounts consist of:

	FY 2018
General Fund	\$8,956,800
Department of Education Empowerment Scholarship Account Fund	1,202,000
Department of Education Professional Development Revolving Fund	2,700,000
Teacher Certification Fund	515,900

These amounts fund the following adjustments:

ESA Administration

The budget includes an increase of \$400,000 from the Department of Education Empowerment Scholarship Account Fund in FY 2018 for administration of the

Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This will provide the department with \$1,202,000 in ESA administration funding for FY 2018 after adjustments for standard changes.

The Department of Education Empowerment Scholarship Account Fund is funded with monies retained from Basic State Aid pursuant to A.R.S. § 15-2402C. That law allows ADE to retain for ESA program administration 5% of the sum of the base support level (BSL) and additional assistance prescribed in A.R.S. § 15-185 and A.R.S. § 15-943 for each ESA student.

Under Laws 2017, Chapter 139, however, the 5% retention does not apply to students whose family income does not exceed 250% of the federal poverty level (FPL), as their ESA funding now equals 100% of the sum of the BSL and additional assistance funding that they would have received at their prior public school. As a result, these students' ESA awards do not leave any "unused" BSL and additional assistance funding that could be retained for ESA administration. *(Please see the Empowerment Scholarship Accounts policy issue under Basic State Aid for more information on Chapter 139.)*

For FY 2018 the 5% retained amount is estimated at roughly \$2,000,000 (an estimated \$82,409,300 in total ESA funding for the year X 50% estimate for the proportion attributable to students funded at 90% of the sum of BSA and additional assistance X 5% = \$2,060,200).

A.R.S. § 15-2402C requires ADE to transfer 20% of the retained amount to the State Treasurer to fund the latter's costs for ESA fund processing. In addition, Laws 2017, Chapter 139 now requires ADE to also transfer 20% of the retained amount to the Department or Revenue (DOR) to fund ESA duties that DOR will be required to perform under Chapter 139. As a result, Chapter 139 reduces the proportion of retained monies that ADE may keep for its own use to 60% (previously 80%), with the remaining 40% collectively now going to the State Treasurer and DOR. *(See Empowerment Scholarship Accounts policy issue under Basic State Aid for more information on Chapter 139.)*

The actual expenditure of the retained monies, however, is subject to legislative appropriation. For FY 2018, the amounts appropriated for ESA administration to the department, State Treasurer and DOR are \$1,202,000 \$305,000 and \$50,000, respectively. *(See budget pages for the State Treasurer and DOR for more information on their respective ESA administration funding.) (See Empowerment Scholarship Accounts policy issue under*

Basic State Aid for more information regarding the Empowerment Scholarship Account program.)

Statewide Adjustments

The budget includes an increase of \$105,900 in FY 2018 for statewide adjustments. This amount consists of:

General Fund	100,500
Department of Education Empowerment Scholarship Account Fund	4,100
Teacher Certification Fund	1,300

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$3,830,841,900 in FY 2018 for Basic State Aid. This amount consists of:

General Fund	3,595,498,400
Permanent State School Fund	235,343,500

The \$3,830,841,900 total does not include \$86,280,500 in "additional school day" funding from Proposition 301 that will be allocated through Basic State Aid in FY 2018 because those monies are non-appropriated *(see Table 1)*. It also excludes local property taxes that will help fund K-12 formula costs for FY 2018, as they also are non-appropriated. In addition, it excludes separately-appropriated monies for the State Aid Supplement established by Proposition 123, for an additional teacher salary increase for FY 2018, for Results-Based Funding, for Rural Assistance, and for JTED Completion Grants, as they all are appropriated through separate line items apart from Basic State Aid.

(See Other Issues for background information regarding the Basic State Aid formula.)

The appropriated amounts fund the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(12,223,800) from the General Fund in FY 2018 to remove one-time supplemental funding. The \$12,223,800 amount is one of 3 components of the department's FY 2017 supplemental. *(See FY 2017 Supplemental under Other Issues for more information.)*

Table 1
FY 2018 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2017 Appropriation (with supplemental)	\$3,516,287,800
Remove FY 2017 Supplemental (one-time)	(12,223,800)
Enrollment Growth @ 1.4%	87,526,600
Higher Average Cost Per Pupil	17,642,900
1.31% Inflation	79,519,800
Property Taxes from New Construction	(58,082,100)
Endowment Earnings	(16,091,600)
Multisite Charter Small School Weights	(18,100,000)
JTED Enrollment – No Graduates	(1,800,000)
Empowerment Scholarship Accounts	818,800
FY 2018 Budget ^{1/}	\$3,595,498,400
Permanent State School Fund	
FY 2017 Original	\$ 219,804,200
FY 2017 Base Adjustment	(552,300)
FY 2017 Revised	\$ 219,251,900
Estimated FY 2018 Growth ^{2/}	16,091,600
FY 2018 Budget	\$ 235,343,500
Prop 301 Sales Tax (no change) ^{3/}	\$ 86,280,500
Local Property Taxes ^{3/}	
FY 2017 Base - estimated	\$2,441,750,200
Property Taxes from New Construction	58,082,100
Non-State Aid Formula Changes	14,775,100
FY 2017 Estimated ^{4/}	\$2,514,607,400
Grand Total (all sources) ^{1/ 5/ 6/}	\$6,431,729,800

- ^{1/} Does not reflect reductions of \$(31,000,000) for Current-Year Funding Backfill and \$(1,148,000) for Former District-Sponsored Charter Schools, which are reflected in separate line items apart from Basic State Aid.
- ^{2/} Under Proposition 123.
- ^{3/} Non-appropriated, so excluded from appropriated totals.
- ^{4/} An estimated \$410,546,000 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
- ^{5/} 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 budget on a session law basis, including the impact on non-state aid districts.
- ^{6/} Does not include \$50,000,000 for State Aid Supplement, \$34,000,000 for Additional Teacher Salary Increase, \$37,600,000 for Results-Based Funding, \$2,600,000 for Rural Assistance and \$1,000,000 for JTED Completion Grants, as they all are appropriated to separate line items apart from Basic State Aid.

Enrollment Growth

The budget includes an increase of \$87,526,600 from the General Fund in FY 2018 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.4% in FY 2018 (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
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	912,920	152,158	1,065,078	14,403	1.4%
2015	920,225	160,946	1,081,171	16,093	1.5%
2016	922,809	170,210	1,093,019	11,848	1.1%
2017 est	926,556	180,091	1,106,647	13,628	1.25%
2018 est	931,783	190,075	1,121,858	15,211	1.4%
2019 est	937,972	199,959	1,137,931	16,073	1.4%
2020 est	944,161	209,993	1,154,154	16,223	1.4%

^{1/} Actuals for FY 2011 through FY 2016 are from ADE payment data. Numbers 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. Numbers 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

The budget includes an increase of \$17,642,900 from the General Fund in FY 2018 for growth in the average Basic State Aid cost per pupil for FY 2018. 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. Special education students receive "add on" funding that increases their average per pupil costs.

The \$17,642,900 estimate includes \$9,900,000 for charter school pupils and \$7,742,900 for special education students in FY 2018. The charter estimate assumes that board-sponsored charter schools will grow by approximately 9,900 ADM in FY 2018 and receive approximately \$1,000 more per pupil (9,900 X \$1,000 = \$9,900,000). The special education estimate assumes that the statewide special education weighted student count will increase by approximately 2,090 ADM in FY 2018 with an average assumed per pupil base level "add on" of \$3,700 (2,090 X \$3,700 = \$7,742,900). The assumed \$3,700 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. (See Table 3 for a summary of Special Education ADM since FY 2011.)

Table 3**Special Education ADM (weighted) ^{1/}**

Fiscal Year	Districts	Charters	Total	Change	% Change
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	105,690	9,135	114,825	12,103	11.8%
2016	105,187	9,731	114,918	93	0.1%
2017 est	107,587	10,331	117,918	3,000	2.6%
2018 est	109,987	10,931	120,918	3,000	2.5%
2019 est	112,387	11,531	123,918	3,000	2.5%
2020 est	114,787	12,131	126,918	3,000	2.4%

^{1/} Actuals for FY 2011 through FY 2016 are from ADE payment data. Excludes "Group B" category that only receives funding weight of 0.003 (309 additional "weighted" students for FY 2016) and students enrolled at ASDB.

1.31% Inflation Adjustment

The budget includes an increase of \$79,519,800 from the General Fund in FY 2018 for a 1.31% 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 1.31% inflation adjustment increases the base level to \$3,683.27 for FY 2018 versus \$3,635.64 for FY 2017.

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 FY 2018 adjustment is 1.31%, which equals the GDP price deflator for calendar year 2016. 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

The budget includes a decrease of \$(58,082,100) from the General Fund in FY 2018 due to a projected 2.22% increase in statewide Net Assessed Value (NAV) from new construction in FY 2018. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$58,082,100 in FY 2018. It also will decrease state costs by \$(58,082,100), 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 2.76% in FY 2018, resulting in a net 4.98% NAV increase for new construction and existing property combined for FY 2018.

The projected 2.76% NAV increase for existing property will not affect net QTR or SETR collections in FY 2018 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 \$4.05 (from \$4.16 currently) and the SETR will decrease to \$0.4875 (from \$0.5010 currently) in FY 2018 in order to offset the estimated 2.76% NAV increase for existing property (see Table 4).

Table 4**TNT Tax Rates**

Tax Rate	FY 2017	FY 2018
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.0793	\$2.0234
• Unified districts and elementary districts not located within a high school district	\$4.1586	\$4.0468
• State Equalization Tax Rate (SETR)	\$0.5010	\$0.4875

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

Endowment Earnings Base Adjustment

The budget includes a decrease of \$(552,300) from the Permanent State School Fund in FY 2018 for an endowment earnings base adjustment. The FY 2017 budget assumed that Proposition 123 would increase the amount of K-12 endowment earnings available for Basic State Aid for FY 2017 by \$172,444,700, but the actual increase based on updated data is \$171,892,400 (\$552,300 less). The base amount of endowment earnings from FY 2017 therefore will be \$(552,300) less than amount originally budgeted for FY 2017.

Endowment Earnings Growth

The budget includes a decrease of \$(16,091,600) from the General Fund and increase of \$16,091,600 from the Permanent State School Fund in FY 2018 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 \$235,343,500 for FY 2018, which would be \$16,091,600 more than the \$219,251,900 revised total assumed for FY 2017 (see Table 5).

A.R.S. § 37-521 caps the amount of K-12 endowment earnings that may be used for SFB debt service and Basic State Aid combined at the FY 2001 level of endowment earnings, which was \$72,263,000. Of that total, an estimated \$47,359,500 will be used for Basic State Aid for FY 2018 and \$24,903,500 will be used for SFB debt service.

Table 5
Estimated K-12 Endowment Earnings for Basic State Aid ^{1/}

<u>Source</u>	<u>FY 2017 revised</u>	<u>FY 2018</u>	<u>Change</u>
Original 2.5% ^{2/}	\$47,359,500	\$47,359,500	\$0
New 4.4% ^{2/}	171,892,400	187,984,000	16,091,600
Total	\$219,251,900	\$235,343,500	\$16,091,600

- ^{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 approved Proposition 123 in May 2016, which did occur.

All endowment earnings above \$72,263,000 go to the Classroom Site Fund established by A.R.S. § 15-977, except that Laws 2015, 1st Special Session, Chapter 1 appropriates for Basic State Aid any increase in State Treasurer land trust distributions from the new 4.4% distribution starting in FY 2016. (See the FY 2017 Appropriations Report for more information on the October 2015 Special Session and Proposition 123.) (See Other Issues for more information on Endowment Earnings.)

The estimated \$235,343,500 in K-12 endowment earnings for FY 2018 assumes that debt service costs for State School Trust Revenue Bonds and Qualified Zone Academy Bonds (QZABs) that were issued by the School Facilities Board (SFB) in prior years in order to fund deficiencies correction in public schools will remain at \$24,903,500 for FY 2018 based on input from SFB, which would be unchanged from the currently budgeted level. This would keep the amount of land trust monies available to fund Basic State Aid from the original 2.5% distribution rate unchanged for FY 2018 at \$47,359,500.

Multisite Charter Small School Weight Reduction

The budget includes a decrease of \$(18,100,000) from the General Fund in FY 2018 to complete a phase out of small school weight funding for multisite charter schools in FY 2018. Multisite charters schools generally are charters schools with common organizational or governance structures. (See FY 2018 Baseline for more information.)

JTED Funding for High School Graduates

The budget includes a decrease of \$(1,800,000) from the General Fund in FY 2018 for Basic State Aid funding for JTED students who have already graduated from high school.

The FY 2017 K-12 Education BRB prohibits JTEDs from including high school graduates in their ADM counts, with certain short-term exceptions. For FY 2017 it allowed any high school graduate under age 21 who was enrolled in a JTED program on February 1, 2016 to remain in their

JTED’s ADM counts in FY 2017 until they finished the program or through the end of FY 2017, whichever occurred first.

The prohibition on high school graduates reduced Basic State Aid costs by an estimated \$(1,000,000) in FY 2017 and will reduce them by an additional estimated \$(1,800,000) in FY 2018 for a total assumed ongoing savings of \$(2,800,000) starting in FY 2018. The estimated savings is greater starting in FY 2018 because no exceptions to the new prohibition are allowed after FY 2017.

The FY 2018 General Appropriation Act, however, appropriates \$1,000,000 for a new JTED Completion Grants program that will fund up to \$1,000,000 of JTED program completion costs for high school graduates statewide starting in FY 2018. Monies for this new program are appropriated through a new separate line item apart from Basic State Aid. Only students who finished at least 50% of their JTED program prior to graduating from high school are eligible for funding from the grant program. (See JTED Completion Grants line item narrative below for more information.)

On a related note, the FY 2018 K-12 Education BRB continues to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2018 by funding their state aid at 95.5% of the full funding amount apart from unrelated District Additional Assistance (DAA) suspensions. This suspended an estimated \$1,888,800 of JTED formula funding for the East Valley Institute of Technology (EVIT), West-MEC and the Pima County JTED for FY 2017. The budget is continuing this suspension for FY 2018.

Rollover

The budget includes no change from the General Fund in FY 2018 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2018) state aid payments until the following fiscal year (now FY 2019).

The FY 2018 rollover affects only school districts with more than 600 students, as has been the policy since FY 2013. The budget continues to exempt small districts from the K-12 rollover in FY 2018, which would continue it at the \$930,727,700 level.

Laws 2016, Chapter 117 advance appropriated \$930,727,700 from the General Fund in FY 2018 in order to fund the \$930,727,700 deferred obligation from FY 2017. Those monies, therefore, do not appear in the FY 2018 General Appropriation Act. The Act, however, advance appropriates \$930,727,700 from the General

Fund in FY 2019 in order to fund the deferred FY 2018 obligation.

Additional Assistance Suspensions

The budget includes no change from the General Fund in FY 2018 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) statutory funding formulas. This continues to suspend \$(352,442,700) of DAA state aid and \$(18,656,000) of CAA for FY 2018.

School districts will receive approximately \$73,000,000 of DAA funding in FY 2018, including \$5,000,000 self-funded by non-state aid districts under current estimates. Without the continuing suspension they instead would receive approximately \$455,000,000 in DAA funding, including approximately \$32,000,000 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.

Charter schools will receive approximately \$324,000,000 of CAA funding in FY 2018. Without the continuing suspension they instead would receive approximately \$343,000,000. CAA is authorized by A.R.S. § 15-185B4, which establishes CAA funding amounts (if fully funded) of \$1,775.05 per pupil for Grades K-8 and \$2,068.79 per pupil for Grades 9-12 for FY 2018 pursuant to Section 1 of the K-12 Education BRB.

As in prior years, the budget continues 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 qualified for state aid. Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes because of their strong local property tax base.

The FY 2018 K-12 Education BRB also continues to cap total statewide DAA reductions for school districts with fewer than 1,100 students at \$5,000,000 for FY 2018.

Empowerment Scholarship Accounts

The budget includes an increase of \$818,800 from the General Fund in FY 2018 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This includes an estimated \$377,800 for trend line ESA caseload growth and \$441,000 for increased ESA eligibility under Laws 2016, Chapter 112.

The \$377,800 estimate for trend line ESA caseload growth assumes an increase of 1,325 ESAs for FY 2018 apart from Laws 2016, Chapter 112. It also assumes that 95% of trend line ESA growth will be for students who otherwise

would attend public schools and 5% to all other pupils (primarily private and home school students), since the ESA eligibility law requires most ESA recipients to be prior year public school pupils.

In addition, it assumes that 58% of new ESAs under trend line growth would go to students with disabilities based on preliminary FY 2017 data. It also assumes different per pupil costs or savings for different types of ESA students based on formula modeling. For example, it assumes an average per pupil savings of \$(2,700) for special needs students from charter schools, but an average per pupil cost of \$5,700 for non-special needs students from private or home schools.

Laws 2016, Chapter 112 allows students with disabilities to continue to receive an ESA until age 22. The \$441,000 estimate assumes that 18 students between the ages of 19 and 22 will continue to receive ESA funding in FY 2018 under Chapter 112. This assumes an average per pupil cost of \$24,500 for these students, which is the estimated average ESA cost for pupils with disabilities.

Laws 2017, Chapter 139

Laws 2017, Chapter 139 expands ESA eligibility to all public school pupils by FY 2021, phasing in new eligibility over 4 years. Other major program changes under the bill are as follows:

- Bases ESA funding for new ESA kindergartners and prior districts students on District Additional Assistance (DAA) rather than Charter Additional Assistance (CAA) [existing ESA students are not affected].
- Funds 100% rather than 90% of Base Support Level (BSL) and additional assistance for ESA students if their family's income does not exceed 250% of the federal poverty level (FPL) and their household agrees to allow the Arizona Department of Revenue (DOR) to verify their family's income using information already available at DOR.
- Extends the cap on new ESA accounts that may be opened per year at 0.5% of the public school population through 2022 versus 2019 under prior law.
- Permanently cap the total number of ESA accounts at the FY 2022 level starting in 2023.

Chapter 139 also allows non-disabled students to remain eligible for an ESA until they reach 22 years of age or until they graduate from high school or obtain a general equivalency diploma, whichever occurs first.

The JLBC Staff fiscal analysis of Chapter 139 (SB 1431) estimated that it would reduce General Fund costs by \$(1,600,000) in FY 2018, \$(2,900,000) in FY 2019, \$(3,500,000) in FY 2020 and \$(3,400,000) in FY 2021, but noted that these estimates were highly speculative and that actual costs could vary substantially depending on the actual participation rates of newly eligible students. For example, ESA participation could depend heavily on families' awareness of and relative preference for the ESA program versus the School Tuition Organization ("STO") scholarships currently available (students may not participate in both programs). The FY 2018 budget did not assume any change in state costs for Basic State Aid (which funds the ESA program) under Chapter 139.

Overall Estimated ESA Costs for FY 2018

The overall cost of ESAs is projected to increase by \$36,401,800 in FY 2018, growing from an estimated \$46,007,500 in FY 2017 to an estimated \$82,409,300 in FY 2018 (see Table 6). With the exception of the \$818,800 increase for pre-Chapter 139 caseload growth described above, this higher estimated cost is expected to be offset by reductions in regular Basic State Aid costs for ESA students who otherwise would be attending public schools.

<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	2,175	\$28,590,800
FY 2017 (est)	3,500	\$46,007,500
FY 2018 (est)	7,850	\$82,409,300

^{1/} Figures shown for FY 2012 through FY 2017 are from ADE as of November 2016. FY 2018 estimates are from the JLBC Staff, including the estimated impact of Laws 2017, Chapter 139 (SB 1431). "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 depends in part on where individual ESA recipients would have attended school apart from the program, which is unknown.

The projected \$82,409,300 cost for ESAs for FY 2018 represents the estimated total amount of ESA allocations for the year rather than the net General Fund impact of the program after related Basic State Aid savings are deducted for students leaving public schools due to ESAs. 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.

Background – Eligible students can use ESA monies 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 previous ESA participant, the child of a resident member of the armed forces who is on active duty or was killed in the line of duty, or an incoming kindergartner or disabled preschooler:

- 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 in the prior year attended a school with a letter grade of D or F pursuant to A.R.S. § 15-241, which evaluates schools primarily based on their students' AzMERIT test scores.
- An incoming Kindergartner who resides within the boundaries of a school with a letter rating of D or F.
- The child of a resident member of the armed forces who is on active duty or was killed in the line of duty.
- A previous ESA participant.
- A child who received or was eligible to receive a Displaced or Disabled School Tuition Organization (STO) scholarship in the prior year and who attended a public school full-time for at least 90 days or one full semester in the prior year.
- A child who resides on an Arizona Indian reservation.
- A child of a parent who is legally blind, deaf or hard of hearing (new for FY 2017 pursuant to Laws 2016, Chapter 353).

Laws 2017, Chapter 139 gradually expands ESA eligibility to any public school student by FY 2021. The phase-in schedule is as follows:

- For FY 2018, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1, 6 and 9.
- For FY 2019, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1, 2, 6, 7, 9 and 10.
- For FY 2020, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1 - 3, and 6 - 11.
- For FY 2021, a child who currently attends or is eligible to attend public school in kindergarten programs or any of grades 1 - 12.

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

A.R.S. § 15-2402C authorizes the department to retain for ESA administration up to 5% of the funding designated for each student's ESA account. *(Please see the ESA Administration policy issue in the agency's Operating Budget narrative for more information.)*

Any of the department's retained monies for ESA administration that are 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 2016 the fund had a carry-forward balance of \$1,672,500.

State Aid Supplement

The budget includes \$50,000,000 from the General Fund in FY 2018 for State Aid Supplement funding. This amount is unchanged from FY 2017.

Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 from the General Fund in FY 2016 for State Aid Supplement funding. It also advance appropriated \$50,000,000 annually for FY 2017 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 for State Aid Supplement funding. *(See the FY 2017 Appropriations Report for more information regarding Proposition 123.)*

Chapter 1 included a footnote instructing the department to allocate the State Aid Supplement monies for FY 2016 to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943(2a) and to increase budget limits accordingly. The footnote also stipulates that a school district's weighted student count is to include non-resident students who attend school in the district. It further stipulates that a school district may budget its State Aid Supplement funding in either its Maintenance and Operation (M&O) or Unrestricted Capital Outlay Fund. These footnote provisions also were enacted into law in advance for FY 2017 through FY 2025 by Laws 2015, 1st Special Session, Chapter 1. As a result, these footnotes do not appear in the FY 2018 General Appropriation Act.

In addition, the State Aid Supplement amounts for FY 2016 through FY 2025 will not appear in the General Appropriation Acts for those years, since they already were advance appropriated by Chapter 1.

Additional Teacher Salary Increase

The budget includes \$34,000,000 from the General Fund in FY 2018 for an additional teacher salary increase. This amount funds the following adjustments:

Additional Teacher Salary Increase

The budget includes an increase of \$34,000,000 from the General Fund in FY 2018 for an additional teacher salary increase. The General Appropriation Act (Laws 2017, Chapter 305) requires a school district or charter school to use its allocation of monies from this line item to give its teachers an additional 1.06% salary increase in FY 2018. It further stipulates that teacher salary increases funded by this line item shall supplement and not supplant any salary increases that a school district or charter school would have given its teachers for FY 2018 apart from this line item.

Chapter 305 establishes the following additional requirements for this line item:

- Limits eligibility for the salary increase monies only to persons who taught at an Arizona public school in FY 2017 and who teach at an Arizona public school in FY 2018.
- Requires the department to allocate to each school district and charter school on or before December 1, 2017 the amount of funding needed to increase by 1.06% the salary of each eligible teacher, including the amount of funding needed to pay the employer share of related increases in employee-related expenses for the Arizona State Retirement System (ASRS) or other employee retirement systems.
- Requires the 1.06% salary increase for each eligible teacher to be computed by their school district or charter school based on their teaching salary for the 2016-2017 school year.
- Makes the above calculations subject to the independent audit of the school district or charter school pursuant to A.R.S. § 15-914.
- Requires any audit findings regarding the miscalculation of this line item to be reported to the department and to be subject to a budget correction pursuant to A.R.S. § 15-915.
- Requires the department to add the amount computed for each school district or charter school to its Base Support Level (BSL), which will pull it into the Basic State Aid formula. As a result, non-state aid districts will self-fund the 1.06% salary increase for their teachers, since they self-fund all of their K-12 formula costs with local property taxes.
- Requires the governing board of a school district or charter school to conduct a separate vote regarding the allocation of monies that it receives from this line

item, notify teachers of the scheduled date and time of action of the vote, transmit a notice of public hearing to the department for posting on its website, and post notice of the public hearing on its website if it maintains one.

- Requires members of the governing board to attest on the page of its FY 2018 budget that members sign that the adopted budget meets the requirements of this line item. The attestation shall also apply to data used for related salary increase calculations.
- Requires a school district, charter school or joint technical education district to include the monies that it receives from this line item in its General Budget Limit for the Maintenance and Operation Fund for FY 2018 pursuant to A.R.S. § 15-947 or A.R.S. § 15-947.01, as applicable. As a result, the monies cannot be used for capital expenditures.
- Indicates that it is the intent of the Legislature and Governor that the appropriation results in an increase in the compensation of Arizona's public school teachers for FY 2018, that they intend to include funding for an additional 1.06% increase in FY 2019 (for a total of 2.12% over 2 years), and that appropriations for teacher salary increases in FY 2019 shall be distributed in same manner as for FY 2018.
- Defines "teacher" as a person who was eligible to be included in the year-end FTE teacher count of a school district for the 2016-2017 school year in the Annual Financial Report of a school district or charter school for FY 2017 and who teaches at a school district or charter school during the 2017-2018 school year. Excludes purchased services personnel or substitute teachers.

Results-Based Funding

The budget includes \$37,600,000 from the General Fund in FY 2018 for Results-Based Funding. This amount funds the following adjustments:

New Program

The budget includes an increase of \$37,600,000 from the General Fund in FY 2018 for a new Results-Based Funding program. The program will provide additional funding to individual schools under a formula prescribed in A.R.S. § 15-249.08, as established by Section 3 of the K-12 Education BRB (Laws 2017, Chapter 304).

A.R.S. § 15-249.08 establishes a new Results-Based Funding Fund for the program. The fund consists of legislative appropriations and is to be administered by the department. Monies in the fund are continuously appropriated.

For FY 2018, Chapter 304 bases eligibility for Results-Based Funding on AzMERIT test scores, but for FY 2019 and subsequent years it instead bases it on whether a school has a letter grade designation of "A" pursuant to A.R.S. § 15-241, as described below.

Formula for FY 2018

A.R.S. § 15-249.08 states that beginning in FY 2018 a school operated by a school district or charter school shall receive \$225 per student if fewer than 60% of its pupils were eligible for free or reduced price lunches (FRPL) under the National School Lunch and Child Nutrition Acts, or an equivalent measure, at the time of spring 2016 AzMERIT testing. Its students' average scores on the mathematics and language arts portions of the AzMERIT tests also must be in the top 10% of all school statewide.

A school shall receive \$400 per student if 60% or more of its pupils were FRPL eligible. Its students' average test scores must be in the top 10% of all schools statewide that likewise had 60% or more of their pupils eligible for free or reduced price lunches.

Each alternative high school that in 2014 was assigned the equivalent of a letter grade designation of "A" pursuant to A.R.S. § 15-241 shall receive \$400 per student.

Formula for FY 2019

Beginning in FY 2019, a school shall receive \$225 per student if it has a letter grade designation of "A" pursuant to A.R.S. § 15-241 from the prior fiscal year and if fewer than 60% of its pupils are FRPL eligible. If 60% or more of students are FRPL eligible, the school shall receive \$400 per student.

Other Requirements

A.R.S. § 15-249.08 establishes the following additional requirements for the program:

- Monies received by a school district or charter holder shall be separately accounted for in its Annual Financial Report.
- Monies shall be allocated directly to enhance, expand or replicate the school site that generated the funding and shall not supplant existing monies.
- The majority of the monies received by a school district or charter holder shall be used for teacher salaries, to hire teachers and to provide for teacher professional development.
- "Replication" means 1) adding seats and serving more students at the awarded school site, 2) using resources at a different location to improve that school or

sustain or accelerate academic growth, 3) mentoring other schools and school leaders to replicate the model or to provide other types of school improvement supports, and 4) physically expanding at another location.

- Schools at different locations that receive funding to improve or to sustain or accelerate growth must show steady improvement after 3 years to remain eligible for funding.

Rural Assistance

The budget includes \$2,600,000 in one-time funding from the Budget Stabilization Fund in FY 2018 for Rural Assistance. This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$2,600,000 from the Budget Stabilization Fund in FY 2018 for one-time funding for Rural Assistance. This funding is appropriated by Section 123 of the General Appropriations Act from the monies earned from the investment of monies in the Budget Stabilization Fund established by A.R.S. § 35-144.

Section 123 requires the appropriated amount to be distributed on a pro rata basis based on average daily membership counts from the 2016-2017 school year to school districts and charter schools that are located in a county with less than 500,000 persons according to the 2010 United States decennial census, except that a school district or charter school that primarily serves homeless or special needs pupils shall qualify regardless of the county in which it is located.

Section 123 defines "primarily serves homeless or special needs pupils" as being a school district or charter school with at least 80% of its students being homeless or qualifying for a special education "Group B" weight pursuant to A.R.S. § 15-943, paragraph 2, subdivision (b).

Special Education Fund

The budget includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2018 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2017.

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 budget includes \$983,900 from the General Fund in FY 2018 for Other State Aid to Districts. This amount is unchanged from FY 2017.

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.

Current-Year Funding Backfill

The budget includes no funding from the General Fund in FY 2018 for Current-Year Funding Backfill. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(31,000,000) from the General Fund in FY 2018 to eliminate a one-time backfilling of funding reductions that school districts with declining enrollments otherwise would experience in FY 2017 due to the implementation of current year Base Support Level (BSL) funding.

(See Eliminate Hold Harmless policy issue under Basic State Aid in the FY 2017 Appropriations Report for more information.)

Former District-Sponsored Charter Schools

The budget includes no funding from the General Fund in FY 2018 for Former District-Sponsored Charter Schools. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(1,148,000) from the General Fund in FY 2018 for Former District-Sponsored Charter Schools in order to eliminate one-time backfill funding. The FY 2017 budget included that funding in order to offset funding reductions that otherwise would occur in FY 2017 due to the elimination of district-sponsored charter schools. The FY 2017 K-12 Education BRB repealed statutory authority for district-sponsored charter schools after FY 2016.

(See Eliminate District Charters policy issue under Basic State Aid in the FY 2017 Appropriations Report for more information.)

Property Tax Relief

Additional State Aid - Homeowner's Rebate

The budget includes \$386,215,500 from the General Fund in FY 2018 for the Additional State Aid (ASA) - Homeowner's Rebate line item. This amount funds the following adjustments:

Base Adjustment

The budget includes a decrease of \$(12,092,800) from the General Fund in FY 2018 in order to reflect lower-than-budgeted costs for the Homeowner's Rebate for FY 2017. The FY 2017 budget assumed that the Homeowner's Rebate would cost \$391,456,100 for FY 2017, but the revised estimate is \$379,363,300 (\$12,092,800 less) due to lower-than-budgeted costs for new homes and statutory changes under revised data. Starting point costs for the Homeowner's Rebate for FY 2018 therefore are \$(12,092,800) less than the FY 2017 appropriation.

The \$(12,092,800) amount also is one of 3 components of the department's FY 2017 supplemental. (See FY 2017 Supplemental narrative under Other Issues for more information.)

New Homes

The budget includes an increase of \$6,852,200 from the General Fund in FY 2018 for increased Homeowner's Rebate costs associated with new home construction. The \$6,852,200 estimate assumes that Class 3 properties (owner occupied homes) will account for about one-fourth of statewide property tax growth from new construction in FY 2018 and that 47.19% of the QTR taxes owed by new homes in FY 2018 will continue to be paid by the state through the Homeowner's Rebate in FY 2018.

Background – The Additional State Aid program authorized by A.R.S. § 15-972 pays 47.19% of each homeowner's QTR taxes, up to a maximum of \$600 per parcel, plus any "1% Cap" costs described below.

Additional State Aid - 1% Cap

The budget includes \$24,330,500 from the General Fund in FY 2018 for the Additional State Aid - 1% Cap line item. This amount funds the following adjustments:

Base Adjustment

The budget includes an increase of \$16,950,200 from the General Fund in FY 2018 in order to reflect higher-than-budgeted costs for the 1% Cap for FY 2017. The FY 2017 budget assumed that the 1% Cap would cost \$7,380,300 for FY 2017, but the revised estimate is \$24,330,500

(\$16,950,200 more) because assumed savings were not realized due to a legal judgment described below. Starting point costs for the 1% Cap for FY 2018 therefore would be \$16,950,200 higher than the FY 2017 appropriation.

The \$16,950,200 amount also is one of 3 components of the department's FY 2017 supplemental. (See FY 2017 Supplemental narrative under Other Issues for more information on the department's FY 2017 Supplemental.)

(See Additional State Aid - 1% Cap narrative in the FY 2017 Appropriations Report for more information the 1% Cap funding shortfall for FY 2017.)

A footnote in the FY 2017 General Appropriation Act allowed the department to use a portion of its FY 2017 appropriations for Basic State Aid (BSA) or Additional State Aid (ASA) to fund a shortfall in BSA or ASA funding, if any, that occurred in FY 2016. This provision allowed the department to use \$12,223,800 of FY 2017 funding to help cover the shortfall in 1% Cap funding that occurred in FY 2016 because of the final ruling in the 1% Cap lawsuit. This amount was less than the foregone state savings of \$19,832,900 for this issue because surplus funding in other areas of the department's budget for FY 2016 made up the difference.

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 historically 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.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,423,700 and 10.6 FTE Positions in FY 2018 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,423,700
Proposition 301 Fund	7,000,000

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$2,900 from the General Fund in FY 2018 for statewide adjustments.

Background – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. The test will cost approximately \$18,500,000 and \$19,500,000 in FY 2017 and FY 2018, respectively (see Table 7). ADE indicates that AzMERIT will cost approximately \$1,000,000 more in FY 2018 due to increased field testing to realign it to new English language arts and mathematics standards approved in December 2016 and because Laws 2016, Chapter 10 requires ADE to implement a new menu of assessments for achievement testing.

The Achievement Testing program, however, also includes components other than AzMERIT testing. It includes AIMS Science Tests, AZELLA testing for English Learners, alternative exams for special needs students, test security costs, information technology support and program administration. ADE estimates that the cost of all of these other functions and AzMERIT combined at approximately \$37,600,000 in FY 2018 versus \$31,500,000 for FY 2017 (see Table 7). ADE indicates that the higher expected costs for FY 2018 are due to AzMERIT changes described above, revising the AIMS Science test to align it with new science standards, making the science and AZELLA tests computer-based, and increased test security and information technology costs associated with the new menu of assessments.

The budget continues 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”

Table 7
Estimated Achievement Testing Costs and Available Funding
(ADE estimates) (\$ in Millions)

	FY 2017	FY 2018
Estimated Costs ^{1/}		
AzMERIT	\$18.5	\$19.5
AIMS Science Testing	2.8	5.2
Alternative Special Needs Exam	0.2	0.2
AZELLA ^{2/}	7.2	8.0
Test Security	0.0	1.0
Information Technology Support	1.2	2.0
Staff and Administration	<u>1.6</u>	<u>1.7</u>
Total	\$31.5	\$37.6
Estimated Available Funding ^{3/}		
General Fund	\$14.5	\$14.5
Proposition 301 - School Accountability ^{4/}	12.5	9.2
Federal Funds	<u>14.4</u>	<u>14.4</u>
Total	\$41.4	\$38.1

^{1/} ADE estimates for FY 2018 are preliminary.

^{2/} Arizona English Language Learner Assessment (funded through the English Learner Administration line item).

^{3/} Exceeds estimated costs for both years. "Surplus" Proposition 301 monies could be carried forward to subsequent years.

^{4/} Includes carry-forward monies.

allowable appropriation for School Accountability in A.R.S. § 42-5029E7. (See *Other Issues for more information regarding this program's use of Proposition 301 monies.*)

(See *English Learner Administration line item for more information about AZELLA testing.*)

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

Adult Education

The budget includes \$4,504,200 and 4.3 FTE Positions from the General Fund in FY 2018 for Adult Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$6,000 from the General Fund in FY 2018 for statewide adjustments.

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 2017, 24 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$12,576,500 in federal funding in FY 2017. Its federal monies are subject to non-

supplanting and maintenance-of-effort requirements stipulated in federal law.

Alternative Teacher Development Program

The budget includes \$500,000 from the General Fund in FY 2018 for an Alternative Teacher Development Program. This amount is unchanged from FY 2017.

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 budget includes \$4,960,400 from the General Fund in FY 2018 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2017.

The Arizona Structured English Immersion Fund was established by Laws 2006, Chapter 4 (A.R.S. § 15-756.04). Monies in the fund are distributed to school districts and charter schools based on amounts that they request pursuant to A.R.S. § 15-756.04C. The department distributed \$4,107,100 to public schools from the fund in FY 2016.

Broadband Expansion

The budget includes \$3,000,000 from the Automation Projects Fund in FY 2018 for Broadband Expansion. This amount funds the following adjustments:

One-Time Broadband Expansion

The budget includes an increase of \$3,000,000 from the Automation Projects Fund in FY 2018 for one-time funding for broadband expansion. Section 120 of the General Appropriation Act appropriates these monies to a new Broadband Expansion Fund (BEF) (A.R.S. § 15-249.07A) established by Section 3 of the K-12 Education BRB.

A.R.S. § 15-249.07 requires the department to use monies in the BEF to provide state matching monies for broadband construction projects for schools, school districts, libraries and groups of schools or school districts that currently lack broadband access and that are eligible for funding from the federal E-Rate program. The E-Rate program provides matching federal funding to support installation of telecommunications and internet services to schools and libraries. The Education SuperHighway (a nonprofit that assists schools with upgrading their

internet access) estimates that providing broadband internet to Arizona district and charter schools and libraries without that current capability could cost approximately \$130,000,000.

Under the E-Rate program, the maximum amount of available federal monies can only be drawn down with a state contribution. Through at least 2018, state funds can be used to help draw down available federal dollars at up to an effective 9:1 "enhanced" match for K-12 broadband construction projects. The \$3,000,000 one-time appropriation of state funding to the BEF therefore could leverage up to \$27,000,000 of temporarily-enhanced federal E-Rate funding (\$3 million state appropriation X 9 = \$27 million in enhanced E-Rate funding).

In addition, the Arizona Corporation Commission (ACC) on March 14, 2017 approved a temporary surcharge on Arizona consumers' phone bills (approximately 15 cents per month) in order to generate an estimated \$8,000,000 of additional state matching funds for drawing down enhanced E-Rate funding. The surcharge will last 12 months and will generate monies through an ACC fund known as the Arizona Universal Service Fund (AUSF).

The additional \$8,000,000 of AUSF monies are expected to draw down up to an additional \$72,000,000 of federal enhanced E-Rate funding ($\$8,000,000 \times 9 = \$72,000,000$). As a result, up to \$110,000,000 of combined state and federal funding are expected to be available for broadband expansion under the current enhanced E-Rate funding program ($\$3,000,000$ BEF appropriation + up to \$27,000,000 E-Rate match + \$8,000,000 AUSF supplement + up to \$72,000,000 E-Rate match = \$110,000,000).

The E-Rate program requires applicants to submit proposals for their planned construction projects when applying for E-Rate funding. Before any funds are released from either the AUSF or the BEF, each proposal must be certified by the Arizona Department of Education (ADE) and approved for federal E-Rate funding by the Universal Service Administrative Company (USAC), which administers the federal program. ADE must give priority to schools with higher "discount rates" (a measure of poverty and rural/urban status, defined by the federal E-Rate program) when certifying projects.

A.R.S. 15-249.08 establishes the following additional requirements for the one-time Broadband Expansion program:

- The first \$8,000,000 of cumulative state matching contributions shall be provided by the ACC.
- Certified projects shall provide bandwidth sufficient to meet the standards for educational services for the

relevant funding year by the Federal Communications Commission and may not exceed those standards without good cause, and may be fiber-based or, if determined to be justified by cost, nonfiber based.

- On or before June 30 and December 31 of each year, the department shall report to the Joint Legislative Budget Committee on the status of the project.
- The June 30 report shall be submitted to the Joint Legislative Budget Committee for review.

Code Writers Initiative Pilot Program

The budget includes no funding from the State Web Portal Fund in FY 2018 for the Code Writers Initiative Pilot Program. This amount funds the following adjustments:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from State Web Portal Fund in FY 2018 for the elimination of one-time funding.

The FY 2017 K-12 Education BRB (Laws 2016, Chapter 124) appropriated \$500,000 in one-time non-lapsing funding from the State Web Portal Fund in FY 2017 for a Code Writers Initiative Pilot Program.

Chapter 124 required the department to allocate program funding on a competitive grant basis with input from the American Indian Advisory Council to participants who would leverage state monies by also securing non-state funding for the program. Program monies were to be used to introduce computer code writing curriculum for Native American students in grades 9–12.

College Credit by Examination Incentive Program

The budget includes \$5,000,000 from the General Fund in FY 2018 for the College Credit by Examination Incentive Program. This amount funds the following adjustments:

First-Year Funding

The budget includes an increase of \$5,000,000 from General Fund in FY 2018 for first-year funding for the College Credit by Examination Incentive Program (CCEIP) established by Laws 2016, Chapter 124.

The enacted FY 2017 budget's 3-year spending plan assumed that this program would start in FY 2018 at the \$5,000,000 funding level.

The program provides incentive bonuses to teachers, school districts and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school pursuant to A.R.S. § 15-249.06. The bonus is \$450 per passing score for a student

who is enrolled in a school district or charter school where at least 50% of students are eligible for free or reduced price lunches under the Federal School Lunch program; otherwise, it is \$300 per passing score. Bonuses shall be reduced proportionately if the appropriated amount is insufficient to fully fund them.

Early Literacy

FY 2018

The budget includes \$8,000,000 from the General Fund in FY 2018 for Early Literacy. This amount funds the following adjustments:

New Program

The budget includes an increase of \$8,000,000 from the General Fund in FY 2018 for a new Early Literacy program (A.R.S. § 15-249.09) established by Section 3 of the K-12 Education BRB.

FY 2019

The budget includes \$12,000,000 from the General Fund in FY 2019 for Early Literacy. This amount funds the following adjustments:

FY 2019 Increase

The budget includes an increase of \$4,000,000 from the General Fund in FY 2019 above FY 2018 for the Early Literacy program. This will provide the program with \$12,000,000 from the General Fund for FY 2019 versus \$8,000,000 for FY 2018. The FY 2019 appropriation for the program appears in Section 136 of the General Appropriation Act.

A.R.S. § 15-249.09 establishes a new Early Literacy Grant Program Fund (ELGPF) to provide support to improve reading skills, literacy and proficiency for students in Kindergarten through 3rd Grade. ELGPF monies are in addition to K-3 Reading Program monies that public schools receive for early literacy instruction pursuant to A.R.S. § 15-211. The latter monies are provided to school districts and charter schools through a "K-3 Reading" funding weight in the Basic State Aid formula.

A.R.S. § 15-249.09 requires the department to administer the ELGPF under policies and procedures to be developed by the State Board of Education (SBE). Subject to review and approval by the SBE, the department shall award program grants on a per pupil basis and on a 3-year cycle to public schools with free and reduced-priced lunch eligibility rates of at least 90% under the National School Lunch and Child Nutrition Acts.

Eligible schools may use grant monies to improve the reading proficiency of students in Kindergarten through Grade 3, such as by funding reading coaches or specialists, reading curricula or tutoring programs.

Subject to review and approval by the SBE, the department shall include a report on the Early Literacy Grant program in the K-3 Reading program plan required by A.R.S. § 15-211.

On a related note, Laws 2017, Chapter 67 makes various changes to the K-3 Reading Program concerning program administration, retention policies, intervention strategies and reporting requirements.

English Learner Administration

The budget includes \$6,519,000 and 14.5 FTE Positions from the General Fund in FY 2018 for English Learner Programs. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$24,000 from the General Fund in FY 2018 for statewide adjustments.

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 120,000 students were expected to take the AZELLA in FY 2017, including 48,000 for initial testing and 72,000 for retesting to see if they should continue to be classified as ELLs.

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.

(See the Accountability and Achievement Testing line item narrative for more information.)

Geographic Literacy

The budget includes \$100,000 in one-time, non-lapsing funding from the General Fund in FY 2018 for Geographic Literacy. This amount is unchanged from FY 2017.

The FY 2018 General Appropriation Act requires the department to use the appropriated one-time amount to issue a grant to a statewide geographic alliance for the purpose of strengthening geographic literacy in this state.

Jobs for Arizona Graduates

The budget includes \$100,000 from the General Fund in FY 2018 for a Jobs for Arizona Graduates program. This amount funds the following adjustments:

New Funding

The budget includes an increase of \$100,000 from the General Fund in FY 2018 for new state funding of the Jobs for Arizona Graduates program. These monies are appropriated by Section 124 of the General Appropriation Act, which requires the department to distribute them to a nonprofit organization for a Jobs for Arizona Graduates program.

On a related note, Laws 2017, Chapter 324 authorizes a new college and career readiness program for at-risk students to be administered through a private entity selected by the department (A.R.S. § 15-707).

JTED Completion Grants

The budget includes \$1,000,000 from the General Fund in FY 2018 for JTED Completion Grants. This amount funds the following adjustments:

Offset Formula Funding Loss

The budget includes \$1,000,000 in first-time funding from the General Fund in FY 2018 for JTED Completion Grants. This funding will partially offset an estimated \$(1,800,000) reduction in Basic State Aid (BSA) funding that JTEDs will experience in FY 2018 because they no longer can include high school graduates in their ADM counts after FY 2017 (see JTED Funding for High School Graduates policy issue under Basic State Aid for more information). Instead JTEDs may apply to the department for a portion of the \$1,000,000 in JTED Completion Grants funding that is

appropriated to the department for these students starting in FY 2018. The department will distribute the new JTED funding on a grant rather than formula basis. If the appropriated amount is insufficient to fund all grant requests from JTEDs, the department shall reduce grant amounts on a proportional basis in order to cap statewide allocations at \$1,000,000. Monies appropriated for the program are non-lapsing.

A.R.S. § 15-393D4c prohibits JTEDs from including in their ADM counts students who have already graduated from high school or received a general equivalency diploma or who are over 21 years of age. The K-12 Education BRB for FY 2017 temporarily notwithstanding that requirement for some students for FY 2016 and FY 2017. It is in full effect, however, starting in FY 2018.

JTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2018 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2017.

A footnote in the General Appropriation Act requires the department to distribute the appropriated amount to JTEDs with fewer than 2,000 ADM pupils on a pro rata basis for soft capital and equipment expenses.

School Safety Program

The budget includes \$4,147,600 and 3.1 FTE Positions from the General Fund in FY 2018 for the School Safety program. These amounts fund the following adjustments:

School Resource Officers

The budget includes an increase of \$500,000 from the General Fund in FY 2018 for additional School Resource Officers (SROs).

Statewide Adjustments

The budget includes an increase of \$2,000 from the General Fund in FY 2018 for statewide adjustments.

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 K-12 Education BRB continues to require \$100,000 of the program's appropriation to be used for a pilot program on school emergency readiness. The K-12 Education BRB also requires the department to submit a report that summarizes the results of the FY 2018 program by November 1, 2018. *(See the FY 2017 Appropriations Report for more 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 2018 will be the first year of the next new 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.

On a related note, Laws 2017, Chapter 158 repeals the School Safety Program Oversight Committee established in A.R.S. § 15-154 and shifts its responsibilities to the department and State Board of Education.

State Block Grant for Vocational Education

The budget includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2018 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2017.

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 budget includes \$1,847,300 and 24 FTE Positions from the Teacher Certification Fund in FY 2018 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$19,200 from the Teacher Certification Fund in FY 2018 for statewide adjustments.

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.

Teacher Professional Development Pilot

The budget includes \$300,000 in one-time funding from the General Fund in FY 2018 for a Teacher Professional Development Pilot Program. This amount funds the following adjustments:

One-Time Pilot Program

The budget includes a one-time increase of \$300,000 from the General Fund in FY 2018 for a Teacher Professional Development Pilot Program. These monies are appropriated by Laws 2017, Chapter 284. The program shall issue scholarships or grants, or both, on a competitive basis that will support certificated teachers in gaining additional credentials and certifications at a regionally or nationally accredited public or private institution to teach math, science, technology, engineering or career and technical education in a public school.

Program scholarships and grants may not exceed \$2,000 per applicant. Recipients shall agree to teach in an Arizona public school for at least 3 additional years after completing their professional development program. If that commitment is not met, the recipient shall be required to fully pay back their scholarship.

On or before November 1 of each year of the pilot program the department shall submit to the Governor, President of the Senate and Speaker of the House of Representatives a report that summarizes the results of the pilot program.

Tribal College Dual Enrollment Program Fund

The budget includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2018 for the Tribal College Dual Enrollment Program Fund program. This amount is unchanged from FY 2017.

A.R.S. § 15-244.01 establishes the Tribal College Dual Enrollment Program Fund and authorizes it to annually receive 15% of unclaimed lottery prize monies up to \$250,000, subject to legislative appropriation, pursuant to A.R.S. § 5-568, plus any other appropriations, gifts, grants, devices and other contributions. The fund compensates tribal colleges for tuition and fees that they waive for high school students who are dual enrolled in tribal college classes.

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

Other Issues

This section includes information on the following topics:

General Issues

- Long-Term Budget Impacts
- FY 2017 Supplemental
- Proposition 301 Funding for School Accountability

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers

Basic State Aid

- Basic State Aid Formula Description

Non-Formula Programs

- Education Learning and Accountability System

Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$172,721,300 in FY 2019 above FY 2018 and \$168,265,400 in FY 2020 above FY 2019. These estimates are based on:

- 1.4% ADM growth for both fiscal years.
- 9,900 new charter ADM and 3,000 new special education weighted ADM for both fiscal years.
- GDP inflators of 2% for both FY 2019 and FY 2020 (currently projected at 2.31% for FY 2019 and 2.27% for FY 2020; statute funds the lesser of 2% or the actual rate).
- New construction NAV growth of 2.5% for both FY 2019 and FY 2020.
- General Fund decreases of \$(14.5) million in FY 2019 and \$(10.3) million in FY 2020 for higher endowment earnings.
- A General Fund decrease of \$(24.9) million in FY 2019 due to the elimination of debt service payments on School Facilities Board Land Trust Bonds authorized by Proposition 301 due to final payoff of those bonds in FY 2018, which frees up land trust monies for Basic State Aid in FY 2019.
- A General Fund increase of \$34.0 million in FY 2019 for an additional 1.06% teacher salary increase.

- A General Fund increase of \$4.0 million in FY 2019 for the Early Literacy program, resulting in total program funding of \$12.0 million for FY 2019 pursuant to Section 136 of the General Appropriation Act.
- A General Fund decrease of \$(400,000) in FY 2019 to eliminate one-time funding for Geographic Literacy and a Teacher Professional Development Pilot Program.

FY 2017 Supplemental

The budget includes \$17,081,200 in supplemental funding from the General Fund in FY 2017 to fund estimated shortfalls in Additional State Aid funding for FY 2017. This includes \$12,223,800 to replace FY 2017 monies that were used to fund an Additional State Aid shortfall for FY 2016, as permitted by a footnote in the FY 2017 General Appropriation Act. It also includes \$16,950,200 for a shortfall in 1% Cap funding for FY 2017 and \$(12,092,800) for a surplus in Homeowner's Rebate funding for FY 2017 (\$12,223,800 + \$16,950,200 - \$12,092,800 = \$17,081,200). *(See narrative for the "Additional State Aid - Homeowner's Rebate" and "Additional State Aid - 1% Cap" policy issues for more information.)*

The budget also includes a General Appropriation Act footnote authorizing the department to use a portion of its FY 2018 state General Fund appropriations for Basic State Aid (BSA) and Additional State Aid (ASA) to fund a shortfall in funding for BSA or ASA, if any, that occurred in FY 2017 after review by the Joint Legislative Budget Committee (JLBC).

Proposition 301 Funding for School Accountability

Proposition 301 from the November 2000 General Election allows the Legislature to appropriate no more than \$7.0 million of Proposition 301 revenues annually for school accountability functions, such as achievement testing, achievement profiles, school report cards, "solution teams" to low-achieving schools and information technology maintenance (A.R.S § 42-5029E7). *(See Other Issues in the FY 2018 Baseline for more information.)*

The department has been able to fund some school accountability functions other than achievement testing in recent years with Proposition 301 carry-forward monies that have existed because of lower-than-budgeted costs for achievement testing in the final years of the old Arizona Instrument to Measure Standards (AIMS) contract. For FY 2017, it is spending approximately \$2.2 million of the \$7.0 million on accountability measures other than achievement testing. Unlike in prior years,

however, it has moved those monies out of the Accountability and Achievement Testing line item and into its operating budget.

ADE's funding shift permanently reduces funding to the Accountability and Achievement Testing line item by \$(2.2) million. This is not expected to result in a funding shortfall for achievement testing for the foreseeable future because ADE reports that approximately \$8.1 million of Proposition 301 carry-forward monies that can help fund achievement testing costs existed at the end of FY 2016 and that balance is expected to increase to approximately \$8.6 million by the end of FY 2018 under current estimates. The budget nonetheless maintains the full \$7.0 million appropriation of Proposition 301 monies in the Accountability and Achievement Testing line item for FY 2018.

Endowment Earnings

In FY 2016, endowment earnings from state trust lands funded approximately \$302.8 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. Prior to voter approval of Proposition 123 in May 2016, the State Constitution required 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 has been superseded through FY 2025 by a new 6.9% factor required by Proposition 123. After FY 2025, Proposition 123 reestablishes the 2.5% factor on a permanent basis.

In FY 2016, public schools received \$302.8 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$43.5 million from the Land Department and \$259.3 million from the State Treasurer (see Table 8).

Source	2015	2016	2017 est ^{1/}	2018 est ^{2/}
Land Department	53.2	43.5	74.4	48.5
Treasurer ^{3/}	<u>76.0</u>	<u>259.3</u>	<u>269.6</u>	<u>294.8</u>
Total	129.2	302.8	344.0	343.3

^{1/} Land Department estimate includes \$25.9 million of forfeited land purchase payments from cancelled contracts (one-time monies).
^{2/} Assumes no change in trust land lease revenues for FY 2018.
^{3/} Growth in FY 2016 due to increasing the distribution percentage from 2.5% to 6.9%.

Table 8 shows that K-12 endowment earnings are estimated to increase to \$344.0 million in FY 2017 and \$343.3 million in FY 2018.

Of the \$302.8 million in K-12 expendable earnings generated for FY 2016, \$219.4 million was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$24.9 million was used to fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 (see Table 9). The remaining \$58.5 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

Proposition 301 narrative below for more information on the Classroom Site Fund and Proposition 301.)

Source	2015	2016	2017 ^{1/}	2018 ^{2/}
Basic State Aid	47.3	219.4	219.3	235.4
SFB Debt Service	25.0	24.9	24.9	24.9
Classroom Site Fund ^{2/}	<u>56.9</u>	<u>58.5</u>	<u>99.8</u>	<u>83.0</u>
Total	129.2	302.8	344.0	343.3

^{1/} Estimated
^{2/} Growth in FY 2017 is due to default on prior land purchase, which converts past principal payments into one-time expendable earnings.

Proposition 123 Triggers

Proposition 123 allows the state to temporarily suspend future inflation increases during periods of economic slowdown in which sales tax revenue and employment both grew more than 1% but less than 2% in the prior year [if only one factor falls into the 1-2% range, there is no suspension]. It would require this suspension if sales tax revenue and employment both grew less than 1%. Since 1992, economic conditions would have met the 1-2% threshold in 1 year and would have met the 1% threshold in 3 years.

The proposition also allows the state to reduce the 6.9% distribution rate to no less than 2.5% for the following fiscal year if the 5-year average balance of the State Land Trust Permanent Fund fell below the average balance of the preceding 5 years. The criteria for reducing the distribution rate would not have been met in the last 10 years, as no 5-year period since 2001 has averaged a lower balance than the preceding 5 years.

Beginning in FY 2026, the proposition allows (but does not require) 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.

(Please see the FY 2017 Appropriations Report for more information on Proposition 123.)

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 Charter Additional Assistance (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 2018 (as modified by the FY 2018 K-12 Education BRB) equal \$1,775.05 per pupil for Grades K-8 and \$2,068.79 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.

Education Learning and Accountability System

The FY 2018 budget includes \$7,300,000 one-time from the Automation Projects Fund (APF) in the Department of Administration budget for “implementing, upgrading and maintaining ELAS” (*see Section 115 of the General Appropriations Act*). This amount is unchanged from FY 2017 and is non-lapsing. In addition, any remaining FY 2017 ELAS project balances may be used for ELAS costs in FY 2018. Before spending these monies, the department must submit an expenditure plan for them to the Joint Legislative Budget Committee for review pursuant to A.R.S. § 41-714.

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). Since FY 2015, ELAS funding has been appropriated to the Arizona Department of Administration rather than ADE. As a result, ELAS funding no longer appears in the ADE budget.

ELAS has received approximately \$61.1 million in total funding from all sources since its inception, including the \$7.3 million appropriated from the General Fund for FY 2018. The General Fund has provided \$45.8 million of the \$60.3 million total with the remainder coming from temporary fees from university and community college students (approximately \$7.2 million cumulatively) and Federal Funds (approximately \$7.3 million cumulatively) (*see Table 10*).

To date, project funding has been used primarily for the following purposes:

- Develop and partially implement data “dashboards” (AZDash) that can provide graphical depictions of data to aid in decision-making, such as to guide instruction. (Full functionality not yet implemented.)

Table 10

ELAS Funding by Fiscal Year
(\$ in Millions)

Fiscal Year	General Fund	Higher Ed Fees ^{1/}	Federal Grants ^{2/}	Total
2012	5.0	1.6	0.1	6.7
2013	5.0	1.6	1.8	8.4
2014	5.4	1.6	2.8	9.8
2015	10.4	1.6	2.6	14.6
2016	5.4	1.6	0.0	7.0
2017	7.3	0.0	0.0	7.3
2018	<u>7.3</u>	<u>0.0</u>	<u>0.0</u>	<u>7.3</u>
Total	45.8	8.0	7.3	61.1

^{1/} Generated from a \$6 per FTSE fee from university and community college pupils. The FY 2012 and FY 2013 budgets appropriated \$1.2 million based on initial estimates. Amount generated above those totals were carried forward into subsequent years.

^{2/} Included \$5.0 million from a statewide longitudinal data system (SLDS) grant and \$2.3 million from a "Race to the Top" grant.

- Develop and partially implement a new data-collection and retrieval system (AzEDS) to eliminate redundant data collection and make data more retrievable for multiple purposes. (Full functionality not yet implemented.)
- Develop and partially implement a Statewide Student Information System (SSIS) that school districts and charters can opt into in order to purchase student information system services at a state-contracted rate.
- Automate school finance calculations for components computed manually under SAIS, such as for Classroom Site Fund per pupil allocations.
- Begin planning to replace the core school finance calculation functions of SAIS ("APOR" and "CHAR"), which calculate funding amounts for individual school districts and charter schools under the Basic State Aid formula.

Starting in FY 2017, all schools submitted student data through AzEDS rather than through the old Student Accountability Information System (SAIS) for the first time, and school payments were based on student counts from AzEDS rather than SAIS. SAIS continues to be used to calculate formula payments for individual school districts and charter schools using AzEDS data, however, because the formula calculation functions of SAIS (APOR and CHAR) have not yet been replaced in ELAS.

(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)

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 11*).

As shown in *Table 11*, 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 \$364.1 million (56.6%) of the \$643.8 million collected for FY 2016 (*see Table 11*). 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 2016, the Classroom Site Fund received approximately \$57.8 million from K-12 endowment earnings, which resulted in total deposits of \$421.9 million (\$364.1 million from the 0.6¢ sales tax + \$57.8 million from endowment earnings = \$421.9 million).

Proposition 123 from the October 2015 Special Session further amended A.R.S. § 37-521B4 in order to dedicate all growth in state land trust revenues from the voter-approved 4.4% increase in the trust distribution percentage (from 2.5% previously to 6.9% through FY 2025) to Basic State Aid, rather than to the Classroom Site Fund. The latter, however, will continue to 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 exceed \$72.3 million.

Table 11

**Proposition 301 Monies
(FY 2016 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	69.6	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	17.4	Receive 3% of monies after SFB debt service.
Tribal Colleges	0.8	Same formula as for community colleges.
Income Tax Credit	<u>25.0</u>	For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	\$176.9	
Additional School Days	\$86.3	To add 5 days to K-12 school year (180 days total).
School Safety and Character Education	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	<u>364.1</u>	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	\$466.9	
Grand Total	\$643.8	

The \$364.1 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2016 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 11*. Those 2 amounts combined equaled \$466.9 million for FY 2016.

ADE distributed \$327 per pupil from the Classroom Site Fund in FY 2016. 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 \$332 per pupil for FY 2017 and \$386 per pupil for FY 2018 pursuant to A.R.S. § 15-977G1.

Budget Overrides

Current law permits school districts to exceed statutory budget limits through “budget override” elections. This includes Maintenance and Operation (M&O) overrides (A.R.S. § 15-481E&F), Special Program overrides (A.R.S. § 15-482) and District Additional Assistance overrides (called Capital Overrides prior to FY 2014) (A.R.S. § 15-481L&M).

M&O and Special Program overrides together are capped at 15% of a district’s Revenue Control Limit (RCL). (“RCL” essentially equals a district’s total funding under the Basic State Aid formula minus its District Additional Assistance

funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district’s RCL.

M&O and Special Program overrides provide additional funding for school district operating expenses, such as teacher salaries. District Additional Assistance overrides instead must be used for the capital improvements listed in the publicity pamphlet for the override, except that up to 10% of the override proceeds may be used for general capital expenses, including cost overruns of proposed capital improvements, pursuant to A.R.S. § 15-481X.

Overrides are funded with additional local property taxes. All 3 types of overrides may be authorized for up to 7 years. M&O and Special Program overrides are phased down over the last 2 years of authorization unless re-approved by voters.

For FY 2017, 93 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 3 had “Special Program” overrides pursuant to A.R.S. § 15-482, and 22 had District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2017 included \$466.0 million for M&O overrides, \$0.9 million for Special Program overrides and \$75.0 million for District Additional Assistance overrides. Grand total budgeted override funding for FY 2017 therefore equaled \$541.9 million, which was \$78.7 million above the \$463.2 million amount budgeted for all overrides collectively in FY 2016 (see *Table 12*). (See the *School Facilities Board Budget narrative for a related summary on K-12 Capital Bonding*.)

Type of Override	FY 2016	FY 2017	Change
M&O	401.0	466.0	65.0
Special Program	1.2	0.9	(0.3)
Additional Assistance	<u>61.0</u>	<u>75.0</u>	<u>14.0</u>
Total	463.2	541.9	78.7

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 12* are from the related ADE reports for FY 2016 and FY 2017.

Additional Legislation

High School Students; Course Time

Laws 2017, Chapter 333 requires the hours in which a student is scheduled to attend a high school during the regular school day to be included in the calculation of Average Daily Membership (ADM) for that student. Under Chapter 333 "regular school day" means the regularly scheduled class periods intended for instructional purposes, which may include core subjects, elective subjects, lunch, study halls, music instruction, and other classes that advance the academic instruction of pupils, except that instructional purposes shall not include athletic practices or extracurricular clubs and activities.

Prior to Chapter 333, a high school student's ADM was based only on instructional hours in courses that count toward graduation.

Concurrent Enrollment

Laws 2017, Chapter 155 modifies criteria for determining Average Daily Membership (ADM) for a high school pupil who also enrolls in courses at a community college or university that qualify for both high school and community college credit ("concurrent enrollment"). Prior to Chapter 155 a community college course had to meet for at least 40 hours per semester in order to be included in ADM calculations. Chapter 155 instead establishes the following requirement:

- The student must earn at least 3 semester hours of credit per semester in the community college or university course in order for the course to count as a "subject" for purposes of ADM calculations.
- The student must attend at least one course offered at the school district or charter school per semester.
- The student's school district or charter school must pay their community college or university tuition for the course or reimburse their tuition cost and must award the student high school academic credit for the course.

- ADM shall be based on the combined hours that the student is enrolled in at the school district or charter school and at the community college or university.
- ADM shall be calculated by dividing the combined hours by 720, except that if a student in grade 9 through 12 participates in Arizona online instruction, average daily membership shall be calculated by dividing the combined hours by 900.

JTED Courses and Programs

Laws 2017, Chapter 279 modifies statutory requirements for JTED programs and courses. Key changes include the following:

- Exempts community college courses and programs from the requirement that a majority of instructional time be conducted in a laboratory, field-based or work-based learning environment.
- Requires specialized materials, in addition to specialized equipment, to satisfy the requirement for instruction that exceeds the cost of a standard educational course.
- Requires industry-based assessments and certification only if appropriate and available; otherwise requires JTED programs to lead to career readiness and entry-level employment.
- Halts funding for JTED courses and programs in the current year, rather than the preceding year, if they do not meet statutory requirements as determined by ADE during the 5-year reviews beginning in 2020.
- Specifies the CTE Division of ADE determines whether a satellite JTED course or program meets statutory requirements.
- The bill is retroactive to June 30, 2010.

School Level Budget Reporting

Laws 2017, Chapter 211 requires schools to report school level budget information and directs the Office of the Auditor General (OAG) to identify the methods and formats for reporting this information beginning in FY 2021.

Rural STEM Program Fund

Laws 2017, Chapter 302 establishes the Rural STEM Program Fund to support science, technology, engineering and math programs in rural schools. It consists of legislative appropriations, grants, gifts, devises and donations from any source. Monies in the fund are continuously appropriated and non-lapsing. The department shall administer the fund and may use not more than 5% of the monies deposited in the fund in a fiscal year for program administration.