

## Department of Education

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 BASELINE
<b>OPERATING BASELINE</b>			
<i>Full Time Equivalent Positions</i>	171.9	195.9	195.9 <sup>1/</sup>
Personal Services	4,219,400	4,554,800	4,554,800
Employee Related Expenditures	1,508,700	1,651,200	1,651,200
Professional and Outside Services	1,121,300	3,337,200	3,337,200
Travel - In State	21,000	16,800	16,800
Travel - Out of State	17,900	18,800	18,800
Other Operating Expenditures	5,181,800	4,893,500	4,893,500
Equipment	116,100	26,800	26,800
<b>OPERATING SUBTOTAL</b>	<b>12,186,200</b>	<b>14,499,100</b>	<b>14,499,100</b> <sup>2/-5/</sup>
<b>SPECIAL LINE ITEMS</b>			
<b>Formula Programs</b>			
Basic State Aid	3,893,908,700	4,462,121,900	4,881,106,400 <sup>6/-12/</sup>
State Aid Supplement	50,000,000	50,000,000	50,000,000 <sup>13/14/</sup>
Additional Teacher Salary Increase	32,250,300	0	0
Results-Based Funding	39,106,500	38,600,000	38,600,000
Rural Assistance	2,600,000	0	0
Special Education Fund	32,242,100	25,529,200	36,029,200
Other State Aid to Districts	201,900	983,900	983,900
Classroom Site Fund	511,829,000	574,995,000	574,995,000 <sup>15/</sup>
Instructional Improvement Fund	27,337,800	45,000,000	45,000,000 <sup>16/</sup>
<b>Property Tax Relief</b>			
Additional State Aid	410,546,000	413,665,500	426,944,900
<b>Non-Formula Programs</b>			
Accountability and Achievement Testing	16,423,600	16,422,500	16,422,500 <sup>17/18/</sup>
Adult Education	4,504,100	4,634,400	4,634,400
Alternative Teacher Development Program	500,000	500,000	500,000
American Civics Education Pilot Program	0	0	500,000 <sup>19/</sup>
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
Broadband Expansion	3,000,000	0	0
Code Writers Initiative Pilot Program	0	500,000	0
College Credit by Examination Incentive Program	3,822,200	5,000,000	5,000,000
Computer Science Pilot Program	0	1,000,000	1,000,000
CTED Completion Grants	0	1,000,000	1,000,000 <sup>20/-22/</sup>
CTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 <sup>23/</sup>
Early Literacy	8,000,000	12,000,000	12,000,000
Education Learning and Accountability System	0	5,300,000	5,300,000
English Learner Administration	6,519,000	6,509,500	6,509,500 <sup>24/</sup>
Geographic Literacy	100,000	100,000	100,000 <sup>25/</sup>
Gifted Education	0	1,000,000	0
Jobs for Arizona Graduates	100,000	100,000	100,000 <sup>26/</sup>
School Safety Program	11,947,600	11,946,900	11,946,900 <sup>27/</sup>
State Block Grant for Vocational Education	11,438,400	11,576,300	11,576,300
Teacher Certification	2,101,500	2,387,000	2,387,000
Teacher Professional Development Pilot	300,000	0	0
Tribal College Dual Enrollment Program Fund	211,000	250,000	250,000
<b>AGENCY TOTAL</b>	<b>5,087,136,300</b>	<b>5,711,581,600</b>	<b>6,153,345,500</b> <sup>28/-31/</sup>
<b>FUND SOURCES</b>			
General Fund	4,200,507,900	4,704,652,000	5,134,115,900
<u>Other Appropriated Funds</u>			
Automation Projects Fund	3,000,000	0	0

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 BASELINE
Budget Stabilization Fund	2,600,000	0	0
Department of Education Empowerment Scholarship Account Fund	1,202,000	1,246,100	1,246,100
Department of Education Professional Development Revolving Fund	361,700	2,700,000	2,700,000
Permanent State School Fund	235,339,100	277,115,300	289,915,300
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	0	500,000	0
Teacher Certification Fund	1,967,300	2,342,700	2,342,700
Tribal College Dual Enrollment Program Fund	211,000	250,000	250,000
SUBTOTAL - Other Appropriated Funds	251,681,100	291,154,100	303,454,100
<b>SUBTOTAL - Appropriated Funds</b>	<b>4,452,189,000</b>	<b>4,995,806,100</b>	<b>5,437,570,000</b>
<u>Expenditure Authority Funds</u>			
Proposition 301	515,445,800	531,057,900	531,057,900
Proposition 301/Classroom Site Fund - Land Trust	92,163,700	103,425,500	103,425,500
Proposition 301/Classroom Site Fund - Carryforward	0	36,292,100	36,292,100
Tribal Gaming	27,337,800	45,000,000	45,000,000
SUBTOTAL - Expenditure Authority Funds	634,947,300	715,775,500	715,775,500
<b>SUBTOTAL - Appropriated/Expenditure Authority Funds</b>	<b>5,087,136,300</b>	<b>5,711,581,600</b>	<b>6,153,345,500</b>
Other Non-Appropriated Funds	16,505,100	16,582,800	16,582,800
Federal Funds	1,121,804,100	1,206,177,500	1,206,177,500
<b>TOTAL - ALL SOURCES</b>	<b>6,225,445,500</b>	<b>6,934,642,600</b>	<b>7,376,105,800</b>

**AGENCY DESCRIPTION** — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. ADE currently oversees 236 school districts, accommodation districts and Joint Technological Education Districts and 440 charter schools that provide public education for students in grades K-12.

**FOOTNOTES**

- 1/ Includes 86.6 GF and 34.4 OF FTE Positions funded from Special Line Items in FY 2020.
- 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/ Any monies available to the Department of Education pursuant to A.R.S. § 42-5029E, paragraph 8, for the Failing Schools Tutoring Fund established by A.R.S. § 15-241, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 8. (General Appropriation Act footnote)
- 5/ Any monies available to the Department of Education pursuant to A.R.S. § 42-5029E, paragraph 6, for character education matching grants pursuant to A.R.S. § 15-154.01, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 6. (General Appropriation Act footnote)
- 6/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2018, Chapter 276.
- 7/ 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 \$289,915,300 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2020. (General Appropriation Act footnote)
- 8/ 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)
- 9/ 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)
- 10/ Any monies available to the Department of Education pursuant to A.R.S. § 42-5029E, paragraph 5, for the increased cost of Basic State Aid due to added school days in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 5. (General Appropriation Act footnote)
  - 11/ The Basic State Aid appropriation for FY 2020 includes a state General Fund increase of \$164,700,000, which the Legislature and Governor intend to be used for teacher salary increases. (General Appropriation Act footnote)
  - 12/ Laws 2019, Chapter 276 appropriated \$164,700,000 from the General Fund for Basic State Aid.
  - 13/ Laws 2015, 1<sup>st</sup> 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.
  - 14/ 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, 1<sup>st</sup> Special Session, Chapter 1, Section 6 footnote)
  - 15/ Any monies available to the Department of Education for the Classroom Site Fund pursuant to A.R.S. § 37-521B, paragraph 4 and A.R.S. § 42-5029E, paragraph 10, in excess of expenditure authority amounts are allocated for the purposes of A.R.S. § 37-521B, paragraph 4 and A.R.S. § 42-5029E, paragraph 10. (General Appropriation Act footnote)
  - 16/ Any monies available to the Department of Education from the Instructional Improvement Fund established by A.R.S. § 15-979, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 15-979. (General Appropriation Act footnote)
  - 17/ 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)
  - 18/ Any monies available to the Department of Education for accountability purposes pursuant to A.R.S. § 42-5029E, paragraph 7, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 7. (General Appropriation Act footnote)
  - 19/ Laws 2018, Chapter 289 appropriated \$500,000 from the General Fund for the American Civics Education Pilot Program.
  - 20/ Monies appropriated for career technical education district completion grants are intended to help fund program completion for students who complete at least 50% of a career technical education program before graduating from high school and who successfully complete the career technical education district program after graduating from high school. The Department of Education shall develop application procedures for the career technical education district completion grant program. The procedures shall award grant funding only after an eligible student has successfully completed a career technical education district program. (General Appropriation Act footnote)
  - 21/ If the appropriated amount is insufficient to fund all grant requests from career 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)
  - 22/ The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations through FY 2021. (General Appropriation Act footnote)
  - 23/ The Department of Education shall distribute the appropriated amount to career 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 career technical education districts. (General Appropriation Act footnote)
  - 24/ 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)
  - 25/ **NEW** The Department of Education shall use the appropriated amount to issue a grant to a statewide geographic alliance for strengthening geographic literacy in the state. (General Appropriation Act footnote)
  - 26/ **NEW** The Department of Education shall use the appropriated amount to issue a grant to a nonprofit organization for a jobs for Arizona graduates program. (General Appropriation Act footnote)

- 27/ Any monies available to the Department of Education for school safety pursuant to A.R.S. § 42-5029E, paragraph 6, in excess of the expenditure authority amounts are allocated for the purposes of A.R.S. § 42-5029E, paragraph 6. (General Appropriation Act footnote)
- 28/ After review by the Joint legislative Budget Committee, in FY 2020, the department may use a portion of its FY 2020 state General Fund appropriations for Basic State Aid, ~~or~~ Additional State Aid OR THE SPECIAL EDUCATION FUND to fund a shortfall in funding for Basic State Aid, ~~or~~ Additional State Aid OR THE SPECIAL EDUCATION FUND, if any, that occurred in FY 2019. (General Appropriation Act footnote)
- 29/ 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)
- 30/ 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)
- 31/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

**Summary**

ADE's FY 2020 General Fund spending increases by \$429,463,900, or 9.1% above the FY 2019 appropriation. The Baseline includes a prior year base adjustment, current law formula adjustments, a non-formula change, the elimination of one-time funding from FY 2019, and funding for policy changes:

**Prior Year Base Adjustment**

- An increase of \$2,059,900 for higher-than-budgeted Homeowner's Rebate and 1% Cap costs for FY 2019 ("base adjustment").

**Current Law Formula Adjustments**

- An increase of \$102,258,300 for 1.3% Average Daily Membership (ADM) growth in FY 2020.
- An increase of \$127,554,200 for a 2.0% inflator.
- A decrease of \$(47,550,200) for local property tax growth due to new construction offset by Homeowner's Rebate impact of \$11,219,500.
- An increase of \$2,700,000 for property tax statutory changes.
- A decrease of \$(12,800,000) to offset higher available endowment earnings under Proposition 123.
- An increase of \$1,547,500 for Empowerment Scholarship Accounts (ESAs).
- An increase of \$8,000,000 to restore \$(8,000,000) in Special Education Fund funding that was reduced on a one-time basis for FY 2019 due available fund balances.
- An increase of \$2,500,000 for Special Education Fund base level increases for inflation and teacher pay raises

- An increase of \$164,700,000 for an additional 5% increase in the statewide average teacher salary.
- An increase of \$67,774,700 to continue to restore currently suspended District Additional Assistance (DAA) and Charter Additional Assistance (CAA).

The current law formula adjustments total to \$427,904,000.

**Non-Formula Change**

- An increase of \$500,000 for a new American Civics Education Pilot Program established by Laws 2018, Chapter 289.

**Eliminate One-Time Funding**

- A decrease of \$(1,000,000) to eliminate one-time funding for Gifted Education.

As part of the Baseline's 3-year spending plan, ADE General Fund costs are projected to increase by \$408,087,200 in FY 2021 above FY 2020 and \$249,858,000 in FY 2022 above FY 2021. (See *Other Issues for more information.*)

**Operating Budget**

The Baseline includes \$14,499,100 and 74.9 FTE Positions in FY 2020 for the operating budget. These amounts consist of:

	<b>FY 2020</b>
General Fund	\$8,851,500
Department of Education Empowerment Scholarship Account Fund	1,246,100

Department of Education Professional Development Revolving Fund	2,567,700
Teacher Certification Fund	133,800
Proposition 301 Expenditure Authority	1,700,000

FY 2020 adjustments are as follows:

**ESA Administration**

The Baseline includes no change in funding from the Department of Education Empowerment Scholarship Account Fund (DEESAF) in FY 2020 for administration of the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This would continue to provide the department with \$1,246,100 in ESA administration funding for FY 2020.

The DEESAF 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, which for FY 2020 would be as much as \$4,529,900 (an estimated \$90,598,800 in ESA costs for FY 2020 X 5%).

A.R.S. § 15-2402C requires ADE to transfer 1/5th of the 5% to the State Treasurer to fund the latter’s costs for ESA fund processing. The actual expenditure, however, is subject to legislative appropriation. (See *State Treasurer budget for State Treasurer’s ESA administration funding.*)

(See *Empowerment Scholarship Accounts policy issue under Basic State Aid for more information regarding Empowerment Scholarship Account Administration.*)

**Proposition 301**

The Baseline includes no change in funding from Proposition 301 Expenditure Authority for the department’s operating budget for FY 2020. This would provide the department’s operating budget with \$1,700,000 in Proposition 301 funding for FY 2020. The \$1,700,000 total would include \$1,500,000 for the Failing Schools Tutoring Fund and \$200,000 for Character Education, as allocated by Proposition 301 (A.R.S. § 42-5029E).

**Formula Programs**

**Basic State Aid**

The Baseline includes \$4,881,106,400 in FY 2020 for Basic State Aid. This amount consists of:

General Fund	4,504,910,600
Permanent State School Fund	289,915,300
Proposition 301 Expenditure Authority	86,280,500

The \$4,881,106,400 total does not include local property taxes that will help fund K-12 formula costs for FY 2020, as they are non-appropriated (see *Table 1*). In addition, it excludes separately-appropriated monies for the State Aid Supplement established by Proposition 123 and for programs such as Results-Based Funding, Early Literacy and the College Credit by Examination Incentive Program, as they are appropriated through separate line items apart from Basic State Aid.

<b>Table 1</b>	
<b>FY 2020 Basic State Aid Formula Summary (estimated)</b>	
<b>General Fund</b>	
FY 2019 Appropriation	\$4,098,726,100
Enrollment Growth @ 1.3%	102,258,300
2.0% Inflation	127,554,200
Property Taxes from New Construction	(47,550,200)
Property Tax - Statutory Changes	2,700,000
Endowment Earnings	(12,800,000)
Additional Assistance	67,774,700
Teacher Salary Increase	164,700,000
Empowerment Scholarship Accounts	<u>1,547,500</u>
FY 2020 Baseline	\$4,504,910,600
<b>Permanent State School Fund</b>	
FY 2019 Appropriation	\$ 277,115,300
Estimated FY 2020 Growth	<u>12,800,000</u>
FY 2020 Baseline	\$ 289,915,300
<b>Prop 301 Sales Tax</b> (no change) <sup>1/</sup>	\$ 86,280,500
<b>Local Property Taxes</b> <sup>1/</sup>	
FY 2019 Base - estimated	\$2,548,414,800
Property Taxes from New Construction	47,550,200
Non-State Aid Districts - 2% Inflation	8,928,800
Non-State Aid Districts - DAA Increase	4,744,200
Non-State Aid Districts - Teacher Salary Increase	11,529,000
Non-State Aid Districts - Enrollment Declines	<u>(7,178,100)</u>
FY 2019 Estimated <sup>2/</sup>	\$2,613,988,900
<b>Grand Total (all sources)</b> <sup>3/4/</sup>	<b>\$7,495,095,300</b>
<sup>1/</sup> Non-appropriated, so excluded from appropriated totals. <sup>2/</sup> An estimated \$426,944,900 of this total will be funded by the state through Homeowner’s Rebate and 1% cap funding. <sup>3/</sup> Statutory formula cost would be approximately \$217,556,700 higher without the District Additional Assistance (DAA) and Charter Additional Assistance (CAA) reductions that are assumed to continue in the Baseline on a session law basis, including the impact on non-state aid districts. <sup>4/</sup> Does not include \$50,000,000 for State Aid Supplement, as it is appropriated to a separate line item apart from Basic State Aid. Also excludes separately appropriated funding for programs such as Results-Based Funding, Early Literacy, and the College Credit by Examination Incentive Program.	

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

FY 2020 adjustments are as follows:

**Enrollment Growth**

The Baseline includes an increase of \$102,258,300 from the General Fund in FY 2020 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.3% in FY 2020 (see Table 2). It further assumes a cost of \$6,336,000 for district growth (1,056 new students X \$6,000 average formula cost per student) and \$95,922,300 for charter growth (13,606 students X \$7,050 average formula cost per student) based on recent trends.

<b>K-12 ADM (unweighted) <sup>1/</sup></b>					
<b>Fiscal Year</b>	<b>District <sup>2/</sup></b>	<b>Charter <sup>3/</sup></b>	<b>Total</b>	<b>Change</b>	<b>% Change</b>
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	920,209	159,032	1,079,241	14,163	1.3%
2016	920,358	164,588	1,084,946	5,705	0.5%
2017	915,589	179,622	1,095,211	10,265	0.9%
2018	913,435	189,305	1,102,740	7,529	0.7%
2019 est	914,445	203,079	1,117,524	14,784	1.3%
2020 est	915,501	216,685	1,132,186	14,622	1.3%
2021 est	916,605	229,903	1,146,508	14,322	1.3%
2022 est	917,756	243,007	1,160,763	14,255	1.2%

<sup>1/</sup> Actuals for FY 2013 through FY 2018 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).

<sup>2/</sup> Includes district-sponsored charter schools.

<sup>3/</sup> Excludes district-sponsored charter schools.

**2.0% Inflation Adjustment**

The Baseline includes an increase of \$127,554,200 from the General Fund in FY 2020 for a 2.0% 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 2.0% inflation adjustment would increase the base level by \$79.20.

In addition, the Baseline assumes that the base level will be further increased to distribute \$164,700,000 for additional teacher salary increases for FY 2020, as discussed separately below. The base level increase required for teacher salary increases will be computed during the spring of 2019 based on student count and other formula data available at that time.

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 estimated FY 2020 adjustment of 2.0% equals the currently estimated GDP price deflator for calendar year 2018. 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.)

On a related note, the Baseline would delete obsolete definitions of "base level" from A.R.S. § 15-901B2. (See *Statutory Changes* section for more information.)

**Property Taxes from New Construction**

The Baseline includes a decrease of \$(47,550,200) from the General Fund in FY 2020 due to a projected 2.15% increase in statewide Net Assessed Value (NAV) from new construction in FY 2020. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$47,550,200 in FY 2020. It also will decrease state costs by \$(47,550,200), 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”) currently is estimated to increase by 2.9% in FY 2020, resulting in a net 5.05% NAV increase for new construction and existing property combined for FY 2020.

The projected 2.9% NAV increase for existing property will not affect net QTR or SETR collections in FY 2020 because A.R.S. § 41-1276 (the “Truth in Taxation” or “TNT” law) requires the QTR and SETR to be adjusted each year to offset NAV changes for existing properties. As a result, the QTR will decrease to an estimated \$3.83 (from \$3.94 currently) and the SETR will decrease to an estimated \$0.4608 (from \$0.4741 currently) in FY 2020 to offset the estimated 2.9% NAV increase for existing property (see Table 3).

<b>TNT Tax Rates</b>			
<b>Tax Rate</b>		<b>FY 2019</b>	<b>FY 2020</b>
Qualifying Tax Rate (QTR)			
• High School districts and elementary districts located within a high school district		\$1.9679	\$1.9125
• Unified districts and elementary districts not located within a high school district		\$3.9358	\$3.8250
• State Equalization Tax Rate (SETR)		\$0.4741	\$0.4608

On a related note, the Baseline would update the Qualifying Tax Rate and State Equalization Tax Rate cited in A.R.S. § 41-1276 to reflect the Truth in Taxation rates established for FY 2020 under that section. (See *Statutory Changes* section for more information.)

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.)

**Property Tax Statutory Changes**

The Baseline includes an increase of \$2,700,000 from the General Fund in FY 2020 for property tax statutory changes. Laws 2017, Chapter 220 expands accelerated depreciation provisions in A.R.S. § 42-14403 beginning in FY 2020 to include qualifying broadband infrastructure property, such as cables, telecommunications equipment, and other property used in the electronic transmission of data. The reduction to statewide net assessed valuation under Chapter 220 will increase General Fund costs for state aid to school districts by an estimated \$2,700,000 annually starting in FY 2020.

**Endowment Earnings Growth**

The Baseline includes a decrease of \$(12,800,000) from the General Fund and an increase of \$12,800,000 from the Permanent State School Fund in FY 2020 for endowment earnings funding for Basic State Aid. The General Fund savings assumes that K-12 endowment earnings for Basic State Aid from the State Land Department and State Treasurer combined under Proposition 123 will equal \$289,915,300 for FY 2020, which would be \$12,800,000 more than the \$277,115,300 total assumed for FY 2019 (see Table 4).

<u>Source</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>Change</u>
Original 2.5% <sup>2/</sup>	\$72,263,000	\$72,263,000	\$0
New 4.4% <sup>2/</sup>	<u>204,852,300</u>	<u>217,652,300</u>	<u>12,800,000</u>
<b>Total</b>	<b>\$277,115,300</b>	<b>\$289,915,300</b>	<b>\$12,800,000</b>

<sup>1/</sup> K-12 Endowment Earnings also help fund the Classroom Site Fund (see Table 12).  
<sup>2/</sup> 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.

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. Starting in FY 2019, however, the entire \$72,263,000 is available to fund Basic State Aid because the affected SFB bonds were paid off by the end of FY 2018. This is increasing by \$24,903,500 the amount of K-12 Endowment Earnings available to fund Basic State Aid starting in FY 2019 (see Table 4).

All endowment earnings above \$72,263,000 go to the Classroom Site Fund established by A.R.S. § 15-977, except that Laws 2015, 1<sup>st</sup> 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.)

**Rollover**

The Baseline includes no change from the General Fund in FY 2020 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2020) state aid payments until the following fiscal year (now FY 2021).

The FY 2020 rollover will affect only school districts with more than 600 students, as has been the policy since FY 2013. The Baseline would continue to exempt small districts from the K-12 rollover in FY 2020, which would continue it at the \$930,727,700 level.

Laws 2018, Chapter 276 advance appropriated \$930,727,700 from the General Fund in FY 2020 to fund the \$930,727,700 deferred obligation from FY 2019. Those monies, therefore, will not appear in the FY 2020 General Appropriation Act. The Act, however, would advance appropriate \$930,727,700 from the General Fund in FY 2021 to fund the deferred FY 2020 obligation.

**Additional Assistance**

The Baseline includes an increase of \$67,774,700 from the General Fund in FY 2020 for Additional Assistance. These monies would partially restore district additional assistance (DAA) and charter additional assistance (CAA) funding that has been suspended since FY 2010. It would increase DAA funding by \$64,367,500 and CAA funding by \$3,407,200 for a total combined increase of \$67,774,700 for FY 2020.

DAA suspensions began at \$(144,000,000) for FY 2010 but increased to \$(352,442,700) for FY 2016 where they remained through FY 2018. CAA suspensions began at \$(10,000,000) for FY 2011 but increased to \$(18,656,000) for FY 2016 where they likewise remained through FY 2018.

The Baseline decreases the DAA and CAA suspensions to \$(193,102,400) and \$(10,221,600), respectively, for FY 2020, as required by Sections 27 and 28 of the FY 2019 K-12 Education BRB (see Tables 5 & 6). Sections 27 and 28 phase out all remaining DAA and CAA suspensions by FY 2023 (see Tables 5 & 6).

The Baseline would not repeat language from Sections 27 and 28 that address DAA and CAA suspensions for FY 2020, since they already address DAA and CAA suspensions and related issues through FY 2023. The Baseline also would not repeat language in Sections 27 and 28 that do the following through FY 2023: 1)

eliminate DAA reductions for school districts with fewer than 1,100 students, and 2) require 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. (See *Statutory Changes section.*)

**Table 5**

**DAA Suspensions & Restorations Through FY 2023 <sup>1/</sup>**

<u>Fiscal Year</u>	<u>Prior Year Suspension</u>	<u>Restoration</u>	<u>Current Year Suspension</u>
2019	(352,442,700)	94,972,800	(257,469,900)
2020	(257,469,900)	64,367,500	(193,102,400)
2021	(193,102,400)	64,367,500	(128,734,900)
2022	(128,734,900)	64,367,400	(64,367,400)
2023	(64,367,400)	64,367,400	0

<sup>1/</sup> Excluding non-state aid districts.

**Table 6**

**CAA Suspensions & Restorations Through FY 2023**

<u>Fiscal Year</u>	<u>Prior Year Suspension</u>	<u>Restoration</u>	<u>Current Year Suspension</u>
2019	(18,656,000)	5,027,200	(13,628,800)
2020	(13,628,800)	3,407,200	(10,221,600)
2021	(10,221,600)	3,407,200	(6,814,400)
2022	(6,814,400)	3,407,200	(3,407,200)
2023	(3,407,200)	3,407,200	0

School districts would receive an estimated \$242,475,700 of DAA funding in FY 2020 under the Baseline including approximately \$17,007,700 self-funded by non-state aid districts. Without the remaining suspension, they instead would receive an estimated \$450,075,700 in DAA funding, including approximately \$31,505,300 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 would receive an estimated \$404,180,300 of CAA funding in FY 2020 under the Baseline. Without the remaining suspension, they instead would receive an estimated \$414,401,800. CAA is authorized by A.R.S. § 15-185B4, which establishes CAA per pupil funding amounts that historically have been adjusted for inflation each year in the K-12 Education BRB. The Baseline assumes that the FY 2020 K-12 Education BRB will increase the current statutory amounts (if fully funded) by 2.0% for inflation to \$1,843.14 per pupil for Grades K-8 and \$2,148.15 per pupil for Grades 9-12.

**Teacher Salary Increases**

The Baseline includes an increase of \$164,700,000 from the General Fund in FY 2020 for teacher salary increases. It will be allocated to schools through an additional base level increase for FY 2020, as described in the "Background" section below. Monies from the additional base level increase for teacher salaries are intended to increase average teacher salaries by an additional 5% for FY 2020 above the 10% increase budgeted for FY 2018 and FY 2019 combined.

The FY 2019 General Appropriation Act appropriated funding in FY 2020 and FY 2021 to provide additional base level increases for teacher pay raises in those years. That funding is intended to provide a cumulative 20% increase in average teacher salaries by FY 2021. (See *Table 7 and "Additional Funding" section below for more information on the teacher salary increase already budgeted for FY 2020. See the FY 2019 Appropriations Report for additional information regarding the FY 2019 teacher salary increase.*)

The \$164,700,000 amount required for teacher salary increases for FY 2020 will not appear in the FY 2020 General Appropriation Act because it has already been appropriated by Laws 2018, Chapter 276, as described above.

**Table 7**

**Teacher Pay Raise Summary <sup>1/</sup>**

<u>Source</u>	<u>Amount</u>
Original 2.12% Increase	\$65,419,100
Additional Funding	176,200,000
"Bridge to Prop 301"	64,100,000
ADC & DJC Increase	298,600
Total - FY 2019 <sup>2/</sup>	\$306,017,700
Additional Increase - FY 2020	164,700,000
Total - FY 2020 <sup>2/</sup>	\$470,717,700
Additional Increase - FY 2021 <sup>2/3/</sup>	174,500,000
Total - FY 2021	\$645,217,700

<sup>1/</sup> Excludes amounts self-funded by non-state aid school districts, which will add approximately 7% to totals shown, except for funding to ADC & DJC.

<sup>2/</sup> Excludes funding for teacher pay raises at the Arizona State Schools for the Deaf and the Blind (ASDB), which is allocated through the Special Education Fund, rather than Basic State Aid. That funding is estimated at \$1,386,400 for FY 2019, \$2,079,600 for FY 2020 and \$2,772,800 for FY 2021.

<sup>3/</sup> Includes \$50,000,000 available from the Classroom Site Fund in FY 2021 due to the retirement of debt service payments on School Facilities Board Proposition 301 bonds in FY 2020.



### Original 2.12%

The \$306,017,700 appropriation for teacher salary increases for FY 2019 includes \$65,419,100 from the General Fund for the 2.12% teacher salary increase originally enacted by the FY 2018 budget. That budget appropriated \$34,000,000 to a separate "Additional Teacher Salary Increase" line item for a 1.06% teacher salary increase for FY 2018. It also included language stating that the Legislature and Governor intended to provide funding for an additional 1.06% teacher pay raise in FY 2019 for a total 2-year increase of 2.12%. Based on updated data, the FY 2019 budget assumed that the cumulative cost of the original 2.12% teacher pay raise would be \$65,419,100 in FY 2019.

The FY 2019 budget funds the \$65,419,100 through the base level for FY 2019, along with the other teacher pay raise monies shown in *Table 7*. Those monies collectively are funding the additional \$210.50 base level increase for teacher pay raises for FY 2019.

### Additional Funding

The \$306,017,700 appropriation for teacher salary increases for FY 2019 also includes an increase of \$176,200,000 from the General Fund in FY 2019 to help fund the \$210.50 base level increase for teacher pay raises for FY 2019.

In addition, Sections 136 and 137 of the FY 2019 General Appropriation Act appropriate \$164,700,000 in FY 2020 and \$289,200,000 in FY 2021 for additional teacher pay raises in those years. The \$289,200,000 amount represents an increase of \$124,500,000 above the FY 2020 amount, not including an additional \$50,000,000 available from the Classroom Site Fund. The total increase for FY 2021 therefore is \$174,500,000 (\$124,500,000 + \$50,000,000). (See *Table 7 and Bridge to Proposition 301 narrative below for more information.*) Those monies are intended to fund a cumulative 20% increase in average teacher salaries by FY 2021.

The base level increases required for FY 2020 and FY 2021 to allocate the amounts appropriated for those years will be calculated during the spring of 2019 and 2020, respectively, based on student counts and other formula funding factors available at that time. They will be calculated using the same methods used to compute the \$210.50 base level increase for teacher pay raises for FY 2019. (See *Background section below for more information.*)

### "Bridge to Proposition 301"

The \$306,017,700 appropriation for teacher salary increases for FY 2019 also includes an increase of \$64,100,000 from the General Fund in FY 2019 for "Bridge to Proposition 301." These recurring one-time monies will fund \$64,100,000 of base level increases until FY 2022, when an equivalent amount can be obtained from the Classroom Site Fund pursuant to Laws 2018, Chapter 74.

Chapter 74 renews the current 0.6 cent Proposition 301 sales tax through June 30, 2041 and will redirect to the Classroom Site Fund \$64,100,000 of 0.6 cent sales tax monies starting in FY 2022. The redirected monies historically have been used to pay debt service on School Facilities Board bonds authorized by Proposition 301. Those bonds will be paid off by the end of FY 2020.

Only about \$50,000,000 of the \$64,100,000 will be available to fund teacher pay raises in FY 2021 because Universities and Community Colleges will be entitled to receive a portion of the newly-available \$64,100,000 for that year only, since Chapter 74 will not take effect until FY 2022. In addition, a portion of the \$64,100,000 will need to fund pay raises for non-state aid districts in FY 2021 only. The latter will occur because the pay raise portion of the \$64,100,000 for FY 2021 will come from the Classroom Site Fund, rather than the Basic State Aid. Only the latter formula generates local savings from non-state aid districts.

### ADC and DJC Increase

The \$306,017,700 appropriation for teacher salary increases for FY 2019 includes an increase of \$298,600 from the General Fund in FY 2019 for teacher salary increases at the Department of Corrections (ADC) and Department of Juvenile Corrections (DJC). ADC and DJC receive Basic State Aid funding under formulas prescribed by A.R.S. § 15-1372 (DOC) and A.R.S. § 15-1371 (DJC). The \$210.50 base level increase for teacher salary increases for FY 2019 will increase their formula funding collectively by an estimated \$298,600 for FY 2019.

### ASDB Increase

The FY 2019 budget also provides an increase of \$1,386,400 from the General Fund for teacher pay raises at the Arizona State Schools for the Deaf and the Blind (ASDB) for FY 2019. That funding is appropriated to the Special Education Fund rather than Basic State Aid, however, because ASDB's formula costs are funded through the Special Education Fund rather than Basic State Aid. The \$1,386,400 amount therefore does not

appear in Table 7. (See narrative for Special Education Fund for more information).

**Background** - The Governor's Office of Strategic Planning and Budgeting (OSPB) estimated that the 20% teacher pay raise would require \$645 million in total state funding upon full phase in by FY 2021. This estimate was based on a reported cost of \$32.5 million for the 1.06% teacher pay raise from FY 2018 according to ADE. OSPB translated that cost into what it would have been for a 1.0% rather than 1.06% pay raise ( $\$32.5 \text{ million} \div 1.06 = \$30.7 \text{ million}$ ) and then increased the latter amount by 3.1% annually for more teachers and inflation. This resulted in an average cost of \$32.25 million per 1% raise by FY 2021, or \$645 million for a 20% raise ( $\$32.25 \text{ million} \times 20 = \$645 \text{ million}$ ).

As a crosscheck to OSPB's calculations, JLBC Staff computed an alternative estimate based on the following factors:

- 1) The average teacher salary reported by the Auditor General for school districts for FY 2017 (\$48,372).
- 2) The cost to increase the Auditor General average by 20% (\$9,674).
- 3) The estimated number of teachers in the state in FY 2021 (62,240 based on the 59,576 "Year End Teacher FTEs" reported for FY 2017 by ADE but increased by approximately 1.1% annually for more teachers).
- 4) The additional percentage increase needed to cover higher Employee Related Expenditure (ERE) costs for school districts and charter schools under the proposal (18.4% based on costs observed for the 1.06% pay raise in FY 2018).
- 5) The percent of pay raise costs that would be paid locally by "non-state aid" districts (decreases state cost by approximately 7%).
- 6) An adjustment to reflect lower average teacher salaries for charter schools that are not reflected in the Auditor General's \$48,372 figure for school districts (decreases state cost by approximately 2.8%). (The Auditor General does not publish a corresponding figure for districts and charters combined.)

Under this approach, the JLBC Staff estimated a state cost of \$648 million for the proposed teacher pay raises by FY 2021, which essentially matched OSPB's \$645 million cost estimate.

Having determined the statewide dollar amount needed for the proposed teacher pay raise, JLBC Staff then used computer modeling to translate the FY 2019 portion of that total (\$306,017,700) into a dollar amount per

student, since Arizona's funding formula for public schools allocates funding on a per pupil basis.

The JLBC Staff modeling was based on student counts and other formula funding factors currently reported by ADE. Based upon the modeling, the JLBC Staff determined that a base level increase of \$210.50 would be needed to increase K-12 formula allocations by \$306,017,700 statewide for FY 2019, including funding for the 1.06% teacher salary increase provided for FY 2018.

The \$210.50 figure represents a 5.72% base level increase above the FY 2018 base level of \$3,683.27 ( $\$210.50 \div 3,683.27 = 5.72\%$ ). It is in addition to the 1.8% (\$66.30) base level increase provided for inflation for FY 2019 (see *FY 2019 Appropriations Report* for more information). Both OSPB and JLBC Staff confirmed the reasonableness of the \$210.50 computer-generated amount using manual calculations.

A 5.72% base level increase is sufficient to fund a 10% average teacher pay raise for FY 2019 (including the 1.06% provided for FY 2018) because only about 48% of base level monies fund teacher salaries and ERE costs. (The Auditor General reports that school districts spent 53.8% of their total operational budgets on "Instruction" for FY 2017, but this figure includes not only teacher salaries and benefits, but also monies spent on classroom supplies, instructional aids, field trips and athletics.) The other 52% is spent on items other than teacher salaries. As a result, a base level increase of only 48% of 10% (4.8%) is needed to fund a 10% increase in base level funding for teacher salaries and benefits.

The FY 2019 state budget provides a 5.72% rather than 4.8% base level increase for teacher salaries because the state also is providing funding to increase by 20% the portion of teacher salaries not funded by the state through the base level. The latter includes teacher salaries funded with Federal Funds, budget overrides, desegregation monies, and the Classroom Site Fund. The Auditor General's reported average teacher salary of \$48,372 for FY 2017, which the JLBC Staff cost calculations were based on, included funding from all sources.

#### **Empowerment Scholarship Accounts**

The Baseline includes an increase of \$1,547,500 from the General Fund in FY 2020 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This assumes an increase of 1,458 ESAs for FY 2020, which was the increase reported for FY 2018. It also assumes that 44% of new ESAs under trend line growth would go to students who qualify for high cost special education Group B weights based on FY 2018 data.

The \$1,547,500 estimate additionally assumes different per pupil costs or savings for different categories of ESA students based on formula modeling. The state fiscal impact of a new ESA varies depending on a student's grade level, whether they have special needs and whether they would be in a school district, charter school or private school apart from the program.

The Baseline assumes no incremental ESA growth in FY 2020 from the ESA expansion bill from the 2017 Legislative Session (Laws 2017, Chapter 139), since voters did not allow it to take effect by passing Proposition 305 in November 2018 pursuant to A.R.S. § 19-101. (See the FY 2018 Appropriations Report for more information on Chapter 139.)

**Overall Estimated ESA Costs for FY 2020**

The overall cost of ESAs is projected to increase by \$16,598,800 in FY 2020, growing from an estimated \$74,000,000 in FY 2019 to \$90,598,800 in FY 2020 (see Table 8). Except for the assumed \$1,547,500 increase for 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.

<b>Fiscal Year</b>	<b>Program Enrollment</b>	<b>Total Awards</b>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015	1,311	\$17,733,700
FY 2016	2,175	\$28,590,800
FY 2017	3,360	\$44,517,700
FY 2018	5,042	\$58,711,200
FY 2019 (est)	6,500	\$74,000,000
FY 2020 (est)	7,958	\$90,598,800

<sup>1/</sup> Figures shown for FY 2012 through FY 2018 are from ADE as of December 2018. Estimates for FY 2019 and FY 2020 are from the JLBC Staff. "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 estimated \$90,598,800 cost for ESAs for FY 2020 represents the projected 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.

*(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 an amount equal to 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. It is required to transfer 1/5<sup>th</sup> of that amount to the State Treasurer, leaving it with a net 4% for ESA administration. *(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 2018 the fund had a carry-forward balance of \$4,195,500.

#### **Additional School Days**

The Baseline includes no change from Proposition 301 Expenditure Authority in FY 2020 for Additional School Days pursuant to A.R.S. § 42-5029E5. This provides the department with \$86,280,500 in Proposition 301 funding for Additional School Days for FY 2020.

Prior to FY 2019, Proposition 301 monies for Additional School Days were included in the department’s non-appropriated funds totals in prior years. The FY 2019 budget, however, displays them and other non-appropriated monies that the department receives from Proposition 301 and Indian gaming as “Expenditure Authority” funds for greater transparency. The Baseline continues this practice for FY 2020.

This change does not affect the department’s access to funding from Proposition 301 or Indian gaming, as it may spend whatever funding is available to it from them (*see, for example, the footnote for the School Safety Program line item in the Footnotes section*).

#### **State Aid Supplement**

The Baseline includes \$50,000,000 from the General Fund in FY 2020 for State Aid Supplement funding. This amount is unchanged from FY 2019.

Laws 2015, 1<sup>st</sup> Special Session, Chapter 1 appropriated \$50,000,000 from the General Fund in FY 2016 for State Aid Supplement funding. It also advances 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, 1<sup>st</sup> Special Session, Chapter 1. They therefore will not appear in the FY 2020 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.

#### **Results-Based Funding**

The Baseline includes \$38,600,000 from the General Fund in FY 2020 for Results-Based Funding. This amount is unchanged from FY 2019.

Section 106 of the FY 2019 General Appropriation Act allowed the Superintendent of Public Instruction to transfer up to \$1,600,000 of the state General Fund appropriation for Basic State Aid for FY 2018 to this program, if needed, without JLBC review, to address an anticipated funding shortfall for the program for FY 2018. A.R.S. § 15-901.03 otherwise would have required JLBC review of the transfer. The Baseline would maintain similar language for FY 2020 to provide flexibility for FY 2019 in case the program again experiences a funding shortfall for FY 2019. A funding shortfall is not currently anticipated for FY 2019, however, as the department estimates as of December 2018 that the program will cost \$38,304,200 for FY 2019, which would be less than its FY 2019 appropriation of \$38,600,000.

In addition, Section 26 of the FY 2019 K-12 Education BRB notwithstanding A.R.S. § 15-249.08B2 for FY 2019 to require the department to distribute program monies for FY 2019 based on AzMERIT scores from spring 2017 testing. Otherwise they would be distributed based on A – F letter grade ratings from FY 2018, which would have increased program costs for the year. The Baseline would continue a similar provision for FY 2020, pending further legislative input on this issue. (*See the FY 2019 Baseline for more information.*)

*Background* – The program provides additional funding to individual schools under a formula prescribed in A.R.S. § 15-249.08. That law also establishes the Results-Based Funding Fund, which consists of legislative appropriations and is administered by the department. Monies in the fund are continuously appropriated. (*See the FY 2018 Appropriations Report for additional information on program requirements.*)

#### **Special Education Fund**

The Baseline includes \$36,029,200 and 2 FTE Positions from the General Fund in FY 2020 for the Special

Education Fund Special Line Item. FY 2020 adjustments are as follows:

**Funding Restoration**

The Baseline includes an increase of \$8,000,000 from the General Fund in FY 2020 to restore funding reduced on a one-time basis for FY 2019 due to the availability carry-forward monies in the Special Education Fund (SEF) established by A.R.S. § 15-1202. The SEF had \$8,688,200 in one-time carry-forward monies at the end of FY 2018.

**Base Adjustment**

The Baseline includes an increase of \$804,200 from the General Fund in FY 2020 for a base adjustment due to higher-than-budgeted costs for special education vouchers for FY 2019. The latter are due to base level increases for inflation and teacher pay raises for FY 2019 that were not reflected in the FY 2019 budget. Those unbudgeted costs are expected to be funded with remaining carry-forward monies in FY 2019 but will require additional ongoing funding starting in FY 2020.

**Base Level Increases**

The Baseline includes an increase of \$1,695,800 from the General Fund in FY 2020 for additional base level increases for teacher pay raises and inflation for FY 2020. The per pupil base level in the Basic State Aid formula, which also drives special education voucher costs, is expected to increase by 2% for inflation and by an additional percentage to be determined in spring 2019 for teacher pay raises in FY 2020. Those base level increases will increase program costs by an estimated \$1,695,800 for FY 2020. (See 2% Inflation Adjustment and Teacher Salary Increase narrative under Basic State Aid for more information.)

*Background* - The Special Education Fund provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) programs for the developmentally disabled operated by DES (A.R.S. § 15-1202). It also funds costs of residential education for students who require a private residential special education placement, or who are placed in a residential education facility by a state placing agency.

**Other State Aid to Districts**

The Baseline includes \$983,900 from the General Fund in FY 2020 for Other State Aid to Districts. This amount is unchanged from FY 2019.

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.

**Classroom Site Fund**

The Baseline includes \$574,995,000 in FY 2020 for the Classroom Site Fund (CSF). This amount consists of:

Proposition 301 Expenditure Authority	435,277,400
Proposition 301/CSF - Land Trust Expenditure Authority	103,425,500
Proposition 301/CSF - Carry-Forward Balance Expenditure Authority	36,292,100

These amounts are unchanged from FY 2019. They will be modified for FY 2020, however, when the JLBC Staff determines the CSF per pupil amount for FY 2020 pursuant A.R.S. § 15-977G1. That law requires the JLBC Staff to determine the per pupil amount for each fiscal year by March 30 of the prior fiscal year.

*Background* - The CSF is established by A.R.S. § 15-977 and provides additional funding to public schools from Proposition 301 and K-12 endowment earnings. Prior to FY 2019, CSF monies were included in the department’s non-appropriated funds totals in prior years. The Baseline, however, now displays them and other non-appropriated monies that the department receives from Proposition 301 and Indian gaming as “Expenditure Authority” funds for greater transparency.

This change does not affect the department’s access to funding from Proposition 301 or Indian gaming, as a General Appropriation Act footnote allows the department to spend whatever funding is available to it from them (see, for example, the footnote for the School Safety Program line item in the Footnotes section).

**Instructional Improvement Fund**

The Baseline includes \$45,000,000 from the Tribal Gaming Expenditure Authority in FY 2020 for the Instructional Improvement Fund. This amount is unchanged from FY 2019.

Prior to FY 2019, Tribal Gaming monies were included in the department’s non-appropriated fund totals. The Baseline, however, continues to display them and other non-appropriated monies that the department receives from Proposition 301 as “Expenditure Authority” funds for greater transparency.

This change does not affect the department’s access to funding from Proposition 301 or Indian gaming, as a

General Appropriation Act footnote allows the department to spend whatever funding is available to it from them (*see, for example, the footnote for the School Safety Program line item in the Footnotes section*).

The Instructional Improvement Fund (IIF) is established by A.R.S. § 15-979 and receives shared revenues from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. IIF monies are distributed to school districts, charter schools and the Arizona State Schools for the Deaf and the Blind based on their student counts.

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**Property Tax Relief**

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**Additional State Aid**

The Baseline includes \$426,944,900 from the General Fund in FY 2020 for Additional State Aid. FY 2020 adjustments are as follows:

**Prior Year Base Adjustment**

The Baseline includes an increase of \$2,059,900 from the General Fund in FY 2020 to reflect higher-than-budgeted costs for Additional State Aid for FY 2019. The FY 2019 budget assumed that Additional State Aid would cost \$413,665,500 for FY 2019 for the Homeowner’s Rebate and 1% Cap combined. The actual combined cost, however, is \$415,725,400 (\$2,059,900 more), as reported by the Arizona Department of Revenue (DOR) in October 2018 pursuant to A.R.S. § 15-972H. Starting point costs for Additional State Aid for FY 2020 therefore will be \$2,059,900 more than the FY 2019 appropriation.

**New Homes**

The Baseline includes an increase of \$11,219,500 from the General Fund in FY 2020 for increased Additional State Aid costs associated with new home construction. The \$11,219,500 estimate assumes that Class 3 properties (owner occupied homes) will account for 50% of statewide property tax growth from new construction in FY 2020 and that the Homeowner’s Rebate percentage will remain at 47.19% for FY 2020. The latter would not change for FY 2020 under current law.

On a related note, the Baseline recommends that A.R.S. § 15-972B be amended to reflect the current 47.19% Homeowner’s Rebate percentage, which was established by DOR for FY 2017 and subsequent years pursuant to Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1, Section 127. A.R.S. § 15-972B has not been updated to reflect the current rebate percentage.

*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 (the “1% Cap”).

The Homeowner’s Rebate is authorized by A.R.S. § 15-972 and pays 47.19% of each homeowner’s QTR taxes, up to a maximum of \$600 per parcel. The “1% cap” 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.

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

The FY 2019 Revenue BRB requires school district desegregation programs to be funded with secondary rather than primary property taxes starting in FY 2019. This is reducing 1% cap costs by an estimated \$(18,952,700) starting in FY 2019 because the 1% cap does not apply to secondary property taxes. Primary property taxes for desegregation programs accounted for the majority of 1% cap costs prior to FY 2019.

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**Non-Formula Programs**

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**Accountability and Achievement Testing**

The Baseline includes \$16,422,500 and 24.4 FTE Positions in FY 2020 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,422,500
Proposition 301 Fund (Appropriated)	7,000,000

These amounts are unchanged from FY 2019.

Additional General Fund funding may be needed for the program for FY 2020, however, depending on the cost of not-yet-awarded contracts for new Menu of Assessments (MOA) tests required by A.R.S. § 15-741.02. That law allows school districts and charter schools to administer achievement tests other than AzMERIT to high school

students starting in FY 2019 and to Grades 3 – 8 starting in FY 2020.

The department issued a Request for Proposals (RFP) for MOA exams for FY 2020 on November 28, 2018. The State Board of Education (SBE) is expected to review vendor bids from that RFP at its meeting on January 28, 2019 and award MOA contracts for FY 2020 at its meeting on February 25, 2019. As a result, contract costs for MOA exams for FY 2020 will not be known until late February 2019.

MOA exams must be approved by the State Board of Education (SBE) pursuant to A.R.S. § 15-741.02A. Exams approved for FY 2019 include all tests adopted by the Arizona Board of Regents (ABOR) as part of the College Credit by Exam Incentive Program (CCEIP) authorized by A.R.S § 15-249.06 (Advanced Placement, International Baccalaureate, and Cambridge International Exams) plus the ACT, SAT, and the Grand Canyon Diploma qualifying exams. The department indicates that AzMERIT also may qualify as a MOA exam for FY 2020 depending on results of the current MOA RFP process.

For FY 2019, schools administering a MOA exam must procure it on their own but may apply to the department for reimbursement. Starting in FY 2020, however, the department will purchase approved MOA exams under state contract and provide them to schools free of charge, as it currently does for AzMERIT.

Laws 2018, Chapter 315, Section 4 requires the department to use any surplus CCEIP monies from FY 2018 to reimburse school districts and charter schools for MOA exams procured for their students for FY 2019. ADE estimates the FY 2018 CCEIP surplus at \$900,000.

The Commission for Postsecondary Education (CPSE) also has received monies in recent years to fund college-readiness exams like the ACT for students. (See the CPSE Baseline pages for more information.)

*Background* – “AzMERIT” tests were administered to Arizona public school students for the first time during the spring of 2015. ADE indicates that the test will cost approximately \$17,100,000 in FY 2019 (see Table 9). Starting in FY 2020 it may be funded through the overall menu of assessments, so ADE does not have a separate cost estimate for it for FY 2020.

The Achievement Testing program, however, includes components other than AzMERIT and menu of assessment tests. It also includes AIMS Science Tests, AZELLA testing for English Learners, alternative exams for special needs students, information technology support

**Table 9**  
**Estimated Achievement Testing Costs and Available Funding**  
**(ADE estimates) (\$ in Millions)**

	<u>FY 2019</u>	<u>FY 2020</u>
<b>Estimated Costs 1/</b>		
AzMERIT 2/	\$17.1	N/A
AIMS Science Testing	1.6	\$2.2
AZELLA 3/	7.1	7.0
Alternative Special Needs Exam (MSAA)	0.2	0.2
Information Technology Support	1.3	1.5
Staff and Administration	1.9	1.9
Menu of Assessments 4/	3.0	22.0
Alternative English Learner Assessment	<u>N/A</u>	<u>1.0</u>
<b>Total</b>	<b>\$32.2</b>	<b>\$35.8</b>
<b>Estimated Available Funding 5/</b>		
General Fund	\$14.3	\$14.3
Proposition 301 - School Accountability 6/	13.2	13.2
Federal Funds	<u>4.0</u>	<u>4.0</u>
<b>Total</b>	<b>\$31.5</b>	<b>\$31.5</b>

- 1/ ADE estimates as of December 2019. FY 2020 estimates are preliminary.
- 2/ Potentially part of the Menu of Assessments starting in FY 2020.
- 3/ Arizona English Language Learner Assessment funded through the English Learner Administration line item.
- 4/ Cost for FY 2020 currently unknown, as Request for Proposals (RFP) is still pending.
- 5/ Estimates assume that \$6.2 million of School Accountability carry-forward monies from Proposition 301 will be available to help fund the program in both FY 2019 and FY 2020. Surplus School Accountability monies can be carried forward to subsequent years.
- 6/ Includes carry-forward monies.

and program administration. ADE estimates the cost of these other functions plus AzMERIT and the menu of assessments combined at \$32,200,000 in FY 2019 and \$35,800,000 for FY 2020 (see Table 9).

The Baseline continues an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs. It also continues a footnote added in FY 2019 stipulating that any monies available to the department for accountability pursuant to A.R.S. § 42-5029E7 in excess of Expenditure Authority amounts are allocated for use pursuant to A.R.S. § 42-5029E7 (see footnotes for this program in agency summary table).

This line item funds costs of developing, administering and scoring achievement tests required by A.R.S. § 15-741. The Proposition 301 amount of \$7,000,000 for Achievement Testing is from the “up to \$7 million” allowable appropriation for School Accountability in A.R.S. § 42-5029E7.

(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 Baseline includes \$4,634,400 and 3 FTE Positions in FY 2020 for Adult Education. These amounts consist of:

General Fund	4,502,100
Department of Education Professional Development Revolving Fund	132,300

These amounts are unchanged from FY 2019.

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 2019, 23 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$13,443,100 in federal funding in FY 2019. Its federal monies are subject to non-supplanting and maintenance-of-effort requirements stipulated in federal law.

### **Alternative Teacher Development Program**

The Baseline includes \$500,000 from the General Fund in FY 2020 for an Alternative Teacher Development Program. This amount is unchanged from FY 2019.

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.

### **American Civics Education Pilot Program**

The Baseline includes \$500,000 from the General Fund in FY 2020 for an American Civics Education Pilot Program. FY 2020 adjustments are as follows:

#### **New Program**

The Baseline includes an increase of \$500,000 from the General Fund in FY 2020 for a new American Civics Education Pilot Program.

Laws 2018, Chapter 289 established the American Civics Education Fund (ACEF) in session law and advance appropriated \$500,000 to it for FY 2020 for an American Civics Education Pilot Program. Chapter 289 requires the

department to develop a 5-year pilot program to begin in FY 2020 for American Civics Education in Grades 9-12 to enhance the focus on American Civics Education for schools selected to participate in the pilot program.

Chapter 289 established the ACEF in session law as an appropriated fund. This would require the Legislature to appropriate monies out of ACEF even though it already appropriated monies into it in Chapter 289. The Baseline includes a statutory change to make ACEF a non-appropriated fund so that the Legislature will no longer have to appropriate monies both into and out of it (*see Statutory Changes section*).

Program funding for FY 2020 will not appear in the FY 2020 General Appropriation Act, since it has already been appropriated by Chapter 289.

### **Arizona Structured English Immersion Fund**

The Baseline includes \$4,960,400 from the General Fund in FY 2020 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2019.

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 \$4,452,700 to public schools from the fund in FY 2018.

### **Broadband Expansion**

The Baseline includes no funding from the Automation Projects Fund in FY 2020 for Broadband Expansion. This amount is unchanged from FY 2019. (*See "Other Issues" section for more information.*)

### **Code Writers Initiative Pilot Program**

The Baseline provides no funding from the State Web Portal Fund in FY 2020 for a Code Writers Initiative Pilot Program. FY 2020 adjustments are as follows:

#### **Eliminate One-Time Funding**

The Baseline includes a decrease of \$(500,000) from the State Web Portal Fund in FY 2020 to eliminate one-time funding. Laws 2018, Chapter 290 appropriated \$500,000 in one-time funding from the Web Portal Fund in FY 2019 for a Code Writers Initiative Pilot Program. The program also received a one-time appropriation of \$500,000 for FY 2017. (*See the FY 2019 Appropriations Report for more information.*)



### **College Credit by Examination Incentive Program**

The Baseline includes \$5,000,000 from the General Fund in FY 2020 for the College Credit by Examination Incentive Program (CCEIP). This amount is unchanged from FY 2019.

The CCEIP 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.

Laws 2018, Chapter 315, Section 4 requires the department to use surplus CCEIP monies from FY 2018, if any, to reimburse school districts and charter schools for optional "menu of assessment" tests, such as the ACT, that they can administer to high school students starting in FY 2019 pursuant to Laws 2018, Chapter 262, Section 6. The department estimates that approximately \$900,000 in surplus CCEIP monies from FY 2018 will be available for menu of assessment reimbursements for FY 2019. These monies are expected to be one-time in nature, so do not represent a long-term funding source for menu of assessment reimbursements.

On a related note, the FY 2018 budget appropriated \$235,000 in one-time funding from the General Fund to the Commission for Postsecondary Education (CPSE) for a College-Readiness Examination Pilot Program for FY 2018. That program also helped school districts and charter schools fund college-readiness exams, such as the ACT, on a one-time basis. The FY 2019 budget did not continue funding for the College-Readiness Examination Pilot Program, so it likewise is not funded in the FY 2020 Baseline. (See CPSE Baseline pages for more information.)

### **Computer Science Pilot Program**

The Baseline includes \$1,000,000 from the General Fund in FY 2020 for a Computer Science Pilot Program. This amount is unchanged from FY 2019.

The program is authorized by A.R.S. § 15-249.12, which also establishes the Computer Science Professional Development Program Fund (CSPDPF). It requires the department to distribute program grants on a first-come, first-served basis to schools that currently do not provide high school computer science instruction. It also requires

the second 50% of state General Fund funding for the program each year to be matched with private monies or in-kind donations and establishes reporting requirements for the program.

### **CTED Completion Grants**

The Baseline includes \$1,000,000 from the General Fund in FY 2020 for CTED Completion Grants (formerly JTED Completion Grants). This amount is unchanged from FY 2019.

Laws 2018, Chapter 311 changed the term Joint Technical Education District (JTED) to Career Technical Education District (CTED), which results in a name change for this program.

A footnote in the General Appropriation Act stipulates that program monies are intended to help fund program completion for students who complete at least 50% of a Career Technical Education District (CTED) program before graduating from high school and who successfully complete the CTED program after graduating from high school. It further requires the department to award grant funding only after an eligible student has successfully completed a CTED program. It also stipulates that if the appropriated amount is insufficient to fund all grant requests from CTEDs, the department shall reduce grant amounts on a proportional basis to cap total statewide allocations at \$1,000,000. It further stipulates that program funding is non-lapsing for one year beyond the budget year. The Baseline would make program's FY 2020 appropriation non-lapsing through FY 2021.

A.R.S. § 15-393D4c prohibits CTEDs 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.

### **CTED Soft Capital and Equipment**

The Baseline includes \$1,000,000 from the General Fund in FY 2020 for CTED Soft Capital and Equipment (formerly JTED Soft Capital and Equipment). This amount is unchanged from FY 2019.

Laws 2018, Chapter 311 changed the term Joint Technical Education District (JTED) to Career Technical Education District (CTED), which results in a name change for this program.

The line item provides additional funding to small CTEDs for soft capital and equipment. A footnote in the General Appropriation Act requires the department to distribute the appropriated amount to CTEDs with fewer than 2,000

ADM pupils on a pro rata basis for soft capital and equipment expenses. The Baseline continues this footnote for FY 2020.

**Early Literacy**

The Baseline includes \$12,000,000 from the General Fund in FY 2020 for Early Literacy. This amount is unchanged from FY 2019.

The program is authorized by A.R.S. § 15-249.09, which establishes a new Early Literacy Grant Program Fund (ELGPF) to provide support to improve reading skills, literacy and proficiency for students in Kindergarten through 3<sup>rd</sup> Grade. (See the FY 2018 Appropriations Report for more information.)

**Education Learning and Accountability System**

The Baseline includes \$5,300,000 and 24.2 FTE Positions from the General Fund in FY 2020 for the Education Learning and Accountability System (ELAS) line item. These amounts are unchanged from FY 2019.

The \$5,300,000 and 24.2 FTE Positions would be for continued maintenance and operation of ELAS, but not for further ELAS development.

From FY 2014 - FY 2018, ELAS funding was appropriated to the Arizona Department of Administration (ADOA) Automation Projects Fund (APF) rather than ADE. FY 2019 marks the first year that the department is receiving ongoing ELAS funding in its budget.

Laws 2011, Chapter 29 authorized development of ELAS, 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). ELAS is intended to replace the department's prior data system - the Student Accountability Information System (SAIS).

ADE estimates that an additional \$9,000,000 will be needed from the General Fund over the next 3 years to replace the school finance portions of SAIS ("APOR" and "CHAR") that compute formula funding entitlements for school districts and charter schools. The current systems are 19 years old and are based on software no longer supported by Microsoft. The department indicates that they are error-prone, costly to maintain and at high risk of catastrophic failure. The estimated \$9,000,000 one-time cost to replace APOR and CHAR would be in addition to

**Table 10**  
**ELAS Funding by Fiscal Year**  
**(\$ in Millions)**

Fiscal Year	General Fund <sup>1/</sup>	Higher Ed Fees <sup>2/</sup>	Federal Grants <sup>3/</sup>	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	7.3	0.0	0.0	7.3
2019	5.3	0.0	0.0	5.3
<b>Total</b>	<b>51.1</b>	<b>8.0</b>	<b>7.3</b>	<b>66.4</b>

<sup>1/</sup> General Fund appropriations for ELAS were made to the Department of Administration Automation Projects Fund in FY 2014 – FY 2018.  
<sup>2/</sup> 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.  
<sup>3/</sup> Included \$5.0 million from a statewide longitudinal data system (SLDS) grant and \$2.3 million from a "Race to the Top" grant.

the \$5,300,000 in ongoing funding currently provided to the department for ELAS maintenance and operation.

ELAS has received approximately \$66,400,000 in total funding from all sources combined since its inception, including the \$5,300,000 appropriated from the General Fund for FY 2019. The General Fund has provided \$51,100,000 of the total, with the remainder coming from temporary fees from university and community college students (approximately \$8,000,000 cumulatively) and Federal Funds (approximately \$7,300,000 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.)
- 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. (Implemented in FY 2017; full functionality not yet completed.)
- Develop and partially implement a Statewide Student Information System (SSIS) that school districts and charters can opt into to purchase student information system services at a state-contracted rate. (Discontinued for FY 2019)
- Automate school finance calculations for components computed manually under SAIS, such as for Classroom Site Fund per pupil allocations.
- Begin to plan replacement of APOR and CHAR.

Starting in FY 2017, all schools submitted student data through AzEDS rather than through 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, since the SAIS APOR and CHAR systems have not yet been replaced.

Pursuant to A.R.S. § 18-104, ADE contracted with a third-party vendor to provide additional oversight for the project from FY 2013 - FY 2018. While ADE has awarded a new 5-year contract, it is not executing the contract in FY 2019, stating that third-party oversight was a condition for approval of ELAS development activities and no further ELAS development was funded for FY 2019. ADE states that the contract will remain in place should additional ELAS development funding be appropriated in the future.

### **English Learner Administration**

The Baseline includes \$6,509,500 and 13.5 FTE Positions from the General Fund in FY 2020 for English Learner Administration. These amounts are unchanged from FY 2019.

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 123,500 students were expected to take the AZELLA in FY 2019, including 42,000 for initial testing and 81,500 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 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 Baseline includes \$100,000 from the General Fund in FY 2020 for Geographic Literacy. This amount is unchanged from FY 2019.

The Baseline would add a footnote to the FY 2020 General Appropriation Act stipulating that the department shall use the amount appropriated to the program to issue a grant to a statewide geographic alliance for strengthening geographic literacy in the state. This would reflect the program’s current use, but that use is not specified currently in a statute or footnote.

The program funds a statewide geographic alliance for strengthening geographic literacy in this state.

### **Gifted Education**

The Baseline includes no funding from the General Fund in FY 2020 for Gifted Education. FY 2020 adjustments are as follows:

#### **Eliminate One-Time Funding**

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2020 to eliminate one-time funding. The FY 2019 General Appropriation Act (Section 124) appropriated \$1,000,000 in one-time funding from the General Fund in FY 2019 for Gifted Education. The program provides additional funding for gifted programs pursuant to A.R.S. § 15-779.03. FY 2019 was the first recent year of funding for this program.

### **Jobs for Arizona Graduates**

The Baseline includes \$100,000 from the General Fund in FY 2020 for a Jobs for Arizona Graduates program. This amount is unchanged from FY 2019.

The Baseline would add a footnote to the FY 2020 General Appropriation Act stipulating that the department shall use the amount appropriated to the program to issue a grant to a nonprofit organization for a Jobs for Arizona graduates program. This would reflect its current use, but that use currently is not specified in a statute or footnote.

The program funds a Jobs for Arizona Graduates program.

### **School Safety Program**

The Baseline includes \$11,946,900 and 4 FTE Positions in FY 2020 for the School Safety program. These amounts consist of:

General Fund	4,146,900
Proposition 301 Expenditure Authority	7,800,000

These amounts are unchanged from FY 2019.

Proposition 301 Expenditure Authority monies for School Safety were included in the department's non-appropriated funds totals in years prior to FY 2019. Starting in FY 2019, they are displayed as "Expenditure Authority" funds for greater transparency. The Baseline continues this practice.

This change does not affect the department's access to funding from Proposition 301 or Indian gaming, as it may spend whatever funding is available to it from them (*see the footnote for this line item in the Footnotes section*).

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.*)

All available state General Fund and Proposition 301 funding for the program is allocated annually by the Department of Education subject to review and approval by the State Board of Education pursuant to A.R.S. § 15-154. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2018 is the first year of the current cycle.

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

### **State Block Grant for Vocational Education**

The Baseline includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2020 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2019.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. ADE also receives federal funding each year for CTE programs pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006, most of which is passed on to local CTE programs. For FY 2019,

the department is receiving approximately \$28,612,700 in Perkins funding. Perkins funding is subject to a federal maintenance-of-effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

### **Teacher Certification**

The Baseline includes \$2,387,000 and 22.9 FTE Positions in FY 2020 for Teacher Certification. These amounts consist of:

General Fund	178,100
Teacher Certification Fund	2,208,900

These amounts are unchanged from FY 2019.

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.

### **Tribal College Dual Enrollment Program Fund**

The Baseline includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2020 for the Tribal College Dual Enrollment Program Fund program. This amount is unchanged from FY 2019.

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:

#### Statutory Changes

- Baseline Provisions
- Deleted Provisions

#### General Issues

- Long-Term Budget Impacts
- FY 2019 Supplemental / FY 2020 Adjustment

### Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers
- Aggregate Expenditure Limit

### Basic State Aid

- Basic State Aid Formula Description

### Broadband

- Broadband Program Description

### Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

### **Statutory Changes**

The Baseline would make the following statutory changes:

#### Formula Requirements

- As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the charter school "Additional Assistance" amounts (A.R.S. § 15-185B4) by 2.0% for standard inflation.
- As permanent law, increase the base level by an additional amount to be determined in spring 2019 to incorporate into Basic State Aid \$164,700,000 for teacher salary increases already appropriated for FY 2020 by Section 136 of the FY 2019 General Appropriation Act.

#### Rollover

- As session law in the General Appropriation Act, continue to defer \$930,727,700 in Basic State Aid payments for FY 2020 until FY 2021. Appropriate \$930,727,700 in FY 2021 for these deferred Basic State Aid payments. Continue to exempt school districts with fewer than 600 students from the K-12 rollover. Allow the department to make the rollover payment on or after July 1, but no later than July 12, 2019.
- As session law in the General Appropriation Act, continue to require school districts to include in the FY 2020 revenue estimates that they use for computing their FY 2020 tax rates the rollover monies that they will receive for FY 2020 in July 2020.

#### Results-Based Funding

- As session law, allocate Results-Based Funding using the same formula that was used in FY 2019, but based on AzMERIT test results from spring 2018 rather than spring 2017. (Under permanent law, the Results-Based Funding instead would be distributed to schools with a letter grade A under the A-F

performance rating developed by the State Board of Education.)

- As session law, continue to allow the department to transfer up to \$1,600,000 from the state General Fund appropriation for Basic State Aid for FY 2019 to the Results-Based Funding program for FY 2019 without review by the Joint Legislative Budget Committee to address a formula shortfall for Results-Based Funding, if any, for FY 2019. Continue to require any amount transferred that exceeds the shortfall amount to revert to the state General Fund on June 30, 2019.

#### Other

- As session law, continue stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.
- As session law, authorize school districts to exceed the Aggregate Expenditure Limit (AEL) in the State Constitution in FY 2020 to ensure that they can spend monies appropriated for additional teacher pay raises and additional assistance restorations for FY 2020. The Legislature can address this issue in either the 2019 or 2020 Legislative Session. (*See Aggregate Expenditure Limit narrative below for more information.*)
- As permanent law, make the American Civics Education Fund a non-appropriated fund to eliminate the need for the Legislature to appropriate monies both into and out of it.
- As permanent law, delete the definition of "base level" for FY 2017 and prior years from A.R.S. § 15-901B2, as they are no longer needed. (A new definition of "base level" is added to A.R.S. § 15-901B2 each year for the upcoming fiscal year.)
- As permanent law, replace obsolete references to the Homeowners Rebate percentage in A.R.S. § 15-972B with the current rebate percentage of 47.19% that was established by DOR for FY 2017 and subsequent years pursuant to Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1, Section 127.
- As permanent law, update the Qualifying Tax Rate and State Equalization Tax Rate cited in A.R.S. § 41-1276 to reflect the Truth in Taxation rates established for FY 2020 under it.
- As permanent law, amend A.R.S. § 15-249.06F to make the annual report on the College Credit by Examination Incentive Program not subject to JLBC review.

#### *Deleted Provisions*

The Baseline would delete the following session law provisions due to their one-time nature:

- As session law, require the Corporation Commission to make all monies collected for K-12 broadband expansion that remain after the 2018 E-Rate cycle available in subsequent years to eligible applicants.
- As session law, allow Cave Creek Unified School District to increase its general budget limit by \$1,500,000 on a one-time basis in FY 2019.

### **Long-Term Budget Impacts**

As part of the Baseline’s 3-year spending plan, ADE General Fund costs are projected to increase by \$408,087,300 in FY 2021 above FY 2020 and \$249,858,000 in FY 2022 above FY 2021. These estimates are based on:

- 1.3% ADM growth in FY 2021 and 1.2% in FY 2022 consisting of approximately 1,100 new ADM for districts and 13,200 new ADM for charters annually.
- GDP inflators of 2% for both FY 2021 and FY 2022 (currently projected at 2.3% for FY 2021 and 2.4% for FY 2022; statute funds the lesser of 2% or the actual rate).
- A \$25 million increase in State Aid Supplement funding in FY 2021, from \$50 million to \$75 million, as required by Proposition 123.
- New construction NAV growth of 2.24% for FY 2021 and 2.29% for FY 2022.
- General Fund decreases of \$(9.5) million in FY 2021 and \$(8.4) million in FY 2022 for higher endowment earnings.
- Approximately \$1.6 million per year for Empowerment Scholarships Account caseload growth.
- An increase of \$124.5 million (plus an additional \$50 million from the Classroom Site Fund) for additional teacher pay raises in FY 2021.
- Increases of \$67.8 million in both FY 2021 and FY 2022 for Additional Assistance restorations.
- Increases of \$1.8 million in FY 2021 and \$0.8 million in FY 2022 for special education vouchers due to inflation and teacher pay raises.

### **FY 2019 Supplemental / FY 2020 Adjustment**

#### **EORP Contribution Adjustment**

The Baseline includes an FY 2019 supplemental appropriation of \$1,900 from the General Fund to pay for FY 2019 employer contribution increases related to the Elected Officials Retirement Plan (EORP). The FY 2019 General Appropriation Act underestimated the total cost of the increase. The Baseline also includes the same amount from the General Fund in FY 2020. Both the supplemental and the FY 2020 amount would be distributed as a statewide adjustment and are not

reflected in the agency table above. (See the Consolidated Retirement Report for more information.)

### **Endowment Earnings**

In FY 2018, endowment earnings from state trust lands funded approximately \$352.4 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 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. The rest are 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 2018, public schools received \$352.4 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$63.9 million from the Land Department and \$288.5 million from the State Treasurer (see Table 11).

Table 11 shows that K-12 endowment earnings are estimated to equal \$380.6 million in FY 2019 and \$393.3 million in FY 2020.

Source	2015 <sup>1/</sup>	2018	2019 est	2020 est <sup>2/</sup>
Land Department	53.2	63.9	67.6	67.6
Treasurer	<u>76.0</u>	<u>288.5</u>	<u>313.0</u>	<u>325.7</u>
<b>Total</b>	<b>129.2</b>	<b>352.4</b>	<b>380.6</b>	<b>393.3</b>

<sup>1/</sup> Final year prior to Proposition 123.  
<sup>2/</sup> Assumes no change in trust land lease revenues for FY 2020.

Of the \$352.4 million in K-12 expendable earnings generated for FY 2018, \$235.3 million was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$24.9 million to fund the School Facilities Board debt service pursuant to A.R.S. § 37-521B2 (see Table 12). The remaining \$92.2 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	2018	2019 <sup>1/</sup>	2020 <sup>1/</sup>
Basic State Aid	47.3	235.3	277.2	289.9
SFB Debt Service	25.0	24.9	0 <sup>2/</sup>	0 <sup>2/</sup>
Classroom Site Fund	<u>56.9</u>	<u>92.2</u>	<u>103.4</u>	<u>103.4</u>
<b>Total</b>	<b>129.2</b>	<b>352.4</b>	<b>380.6</b>	<b>393.3</b>

<sup>1/</sup> Estimated.  
<sup>2/</sup> \$24.9 million annual SFB debt service payments ended after FY 2018.

**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 45.1% of total state General Fund appropriations.

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

**Aggregate Expenditure Limit**

Article IX, Section 21 of the State Constitution establishes an Aggregate Expenditure Limit (AEL) that caps spending for all school districts combined at the FY 1980 statewide level adjusted for subsequent statewide enrollment growth and inflation plus 10%. The AEL does not apply to exempted items like overrides, bonding and Proposition 301 funding or to charter schools.

Pursuant to A.R.S. § 15-911B, the Department of Education reported in November 2018 that currently budgeted expenditures for school districts collectively for FY 2019 are \$(231.0) million below the AEL. The difference for FY 2018 was \$(586.3) million.

The gap between school district's budgeted spending and the AEL is decreasing in FY 2019 because funding for teacher pay raises and Additional Assistance restorations is causing district spending to grow faster than enrollment and inflation combined in the current year.

School districts' collective budgeted spending could exceed the AEL as early as FY 2020 due to additional teacher salary increases and Additional Assistance restorations budgeted in advance for that year. If so, A.R.S. § 15-911C2 allows the Legislature to authorize statewide school district spending above the AEL for a current fiscal year with a two-thirds majority vote in both the House of Representatives and Senate.

We will not know whether school district budgets for FY 2020 exceed the AEL for that year until November 1, 2019 when the department is required to report this information pursuant to A.R.S. § 15-911B. The Baseline, however, includes statutory changes to authorize school districts to exceed the AEL for FY 2020 as a contingency measure if needed and if members choose to exercise this option. Alternately, the Legislature could wait until November 1, 2019 to confirm whether the AEL is being exceeded for FY 2020 and authorize spending above it thereafter. (See *Statutory Changes* section above.)

A permanent increase in the AEL would require a voter-approved change to the State Constitution.

#### **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 can generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require “Basic State Aid” monies 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) 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 can 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 2019 equal \$1,807.00 per pupil for Grades K-8 and \$2,106.03 per pupil for Grades 9-12. Charter schools receive all their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

#### **Broadband Expansion**

The FY 2018 General Appropriation Act included a one-time \$3 million appropriation to the newly-established Broadband Expansion Fund (BEF) for state matching contributions for broadband construction projects for schools and libraries. (See *the FY 2018 Appropriations Report* for more information.)

In addition, the Arizona Corporation Commission (ACC) on March 14, 2017 approved a temporary 12-month surcharge on Arizona consumers' phone bills to generate \$8 million of additional state matching funds. Together, the \$3 million legislative appropriation and the \$8 million surcharge are intended to provide \$11 million of state matching contributions to draw down approximately \$130 million in federal “E-Rate” monies that support broadband construction projects.

Before any state matching funds are released, each project proposal must be certified by ADE and approved for federal E-Rate funding by the Universal Service



Administrative Company (USAC), which administers the program.

As of August 2018, ADE had certified \$11.1 million of state funding for broadband projects, of which \$5.2 million was denied federal funding. As a result, \$5.9 million of state funding is associated with projects that are either complete, in progress, or pending federal approval.

ADE has stated that schools—including those whose applications were previously denied—have 1 more year to (re)apply for the state matching funds under the Arizona Corporation Commission's rules for the \$8 million generated by the Commission. The \$3 million of state funds appropriated by the Legislature are non-lapsing and do not have a deadline for use. As the federal E-Rate program may continue to be available in future years, the Legislature could also make additional appropriations to draw down more Federal Funds in subsequent years if deemed necessary.

**Proposition 301**

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 to increase the state Transaction Privilege Tax (TPT) (“sales tax”) rate on most purchases from 5% to 5.6% through FY 2021 to generate more funding for public education. It also amended A.R.S. § 42-5029 to prescribe how the new sales tax revenues would be allocated (*see Table 13*).

Starting in FY 2022, Laws 2018, Chapter 74 extends the additional 0.6% sales tax through June 30, 2041 and redirects to the Classroom Site Fund \$64.1 million of 0.6% sales tax monies previously needed for debt service on School Facilities Board bonds authorized by Proposition 301. All other distributions remain unchanged.

As shown in *Table 13*, Proposition 301 revenues are earmarked for the following items through FY 2021:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction, which will be paid off by the end of FY 2020. (Chapter 74

**Table 13**

<b>PROPOSITION 301 SALES TAX REVENUES</b>		<b>Proposition 301 Monies (FY 2018 Actual) (\$ in Millions)</b>
<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	77.4	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	19.3	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.
<b>Subtotal - Non-ADE Programs</b>	<b>\$186.6</b>	
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>419.7</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.
<b>Subtotal - ADE Programs</b>	<b>\$522.5</b>	
<b>Total - Prop 301 Sales Tax</b>	<b>\$709.1</b>	
<b>CLASSROOM SITE FUND EXPENDITURES (ALL SOURCES)</b>		
Prop 301 Sales Tax (from above)	419.7	
Prop 301/CSF - Land Trust	92.1	
Prop 301/CSF - Carry-Forward	<u>0.0</u>	
<b>Total – Classroom Site Fund</b>	<b>\$511.8<sup>1/</sup></b>	

<sup>1/</sup> Total disbursements reported for FY 2018 in ADE’s FY 2020 budget request from August 2018. Does not match estimated amounts in JLBC Staff Classroom Site Fund (CSF) memo dated 3/29/2018, as the latter were estimates based on data available at the time rather than year-end actuals.

redirects these monies to the Classroom Site Fund starting in FY 2022. For FY 2021, 12% will go to universities, 3% to community colleges, with equivalent per pupil distributions going to tribal community colleges, and the remainder will go to the Classroom Site Fund.)

- 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 \$419.7 million (59.2%) of the \$709.1 million collected for FY 2018 (see Table 13).

Classroom Site Fund

Proposition 301 also amended A.R.S. § 37-521B4 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. Total reported expenditures from the CSF for FY 2018 were \$511.8 million (see Table 13).

**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 2019, 93 districts statewide have M&O overrides pursuant to A.R.S. § 15-481, 1 has a “Special Program” override pursuant to A.R.S. § 15-482, and 25 have District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2019 include \$530.7 million for M&O overrides, \$0.9 million for Special Program overrides and \$85.9 million for District Additional Assistance overrides. Grand total budgeted override funding for FY 2019 therefore equals \$617.5 million, which was \$42.1 million above the \$575.4 million amount budgeted for all overrides collectively in FY 2018 (see Table 14). (See the School Facilities Board Baseline narrative for a related summary on K-12 Capital Bonding.)

<u>Type of Override</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>Change</u>
M&O	490.7	530.7	40.0
Special Program	1.3	0.9	(0.4)
Additional Assistance	<u>83.4</u>	<u>85.9</u>	<u>2.5</u>
<b>Total</b>	<b>575.4</b>	<b>617.5</b>	<b>42.1</b>

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 14 are from the related ADE reports for FY 2018 and FY 2019.

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 Estimate
<b>Agricultural Youth Organization Special Plate Fund (EDA2650/A.R.S. § 15-791)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> A deposit of \$17 of each \$25 original and annual renewal Arizona agricultural youth organization special plate fee, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
<b>Purpose of Fund:</b> To issue Arizona agricultural youth organization special plates. ADOT is to annually deposit these monies, excluding administrative fees, into the Arizona Agricultural Youth Organization Special Plate Fund for disbursement by the State Board of Education acting as the State Board for Vocational and Technological Education.		
<b>Funds Expended</b>	167,000	165,000
<b>Year-End Fund Balance</b>	0	0
<b>American Civics Education Fund (EDA5555/Laws 2018, Chapter 289)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations and other monies transferred into the fund. Laws 2018, Chapter 289 appropriated \$500,000 from the General Fund to this fund for the program in FY 2020.		
<b>Purpose of Fund:</b> To fund the American Civics Education pilot program established by Laws 2018, Chapter 289.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Assistance for Education Fund (EDA2420/A.R.S. § 15-973.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> State income tax refunds that are donated to the fund via a check-off box on state income tax forms pursuant to A.R.S. § 43-617.		
<b>Purpose of Fund:</b> To fund solutions teams assigned to schools pursuant to A.R.S. § 15-241.02.		
<b>Funds Expended</b>	21,800	31,300
<b>Year-End Fund Balance</b>	9,900	12,600
<b>Automation Projects Fund (EDA2566/A.R.S. § 41-714)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations.		
<b>Purpose of Fund:</b> To implement, upgrade, or maintain automation and information technology projects for any state agency. For FY 2018, \$3,000,000 was appropriated from the Automation Projects Fund to the Broadband Expansion Fund for broadband expansion.		
<b>Funds Expended</b>	3,000,000	0
<b>Year-End Fund Balance</b>	0	0
<b>Broadband Expansion Fund (EDA2145/A.R.S. § 15-249.07)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies appropriated from the Automation Projects Fund.		
<b>Purpose of Fund:</b> To provide state matching monies for certified broadband connectivity construction projects for qualified applicants. Expenditures are not displayed to avoid double counting of the Automation Projects Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	3,000,000	0
<b>Budget Stabilization Fund (EDA3034/A.R.S. § 35-144)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations.		
<b>Purpose of Fund:</b> Laws 2017, Chapter 305, Section 123 appropriated \$2,600,000 in one-time funding from the Budget Stabilization Fund to the department for FY 2018 for Rural Assistance.		
<b>Funds Expended</b>	2,600,000	0
<b>Year-End Fund Balance</b>	0	0
<b>Character Education Special Plate Fund (EDA2522/A.R.S. § 15-719)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> \$17 of the \$25 fee for Character Education license plates.		
<b>Purpose of Fund:</b> To fund character education programs in schools. Not more than 10% of monies deposited in the fund annually shall be used for the cost of administering the fund.		
<b>Funds Expended</b>	26,900	25,500
<b>Year-End Fund Balance</b>	0	0

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 Estimate
<b>Computer Science Professional Development Program Fund</b> (EDA9999/A.R.S. § 15-249.12)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies appropriated by the Legislature and grants, gifts, devises and donations from any public or private source.		
<b>Purpose of Fund:</b> To fund computer science professional development for school districts and charter schools that do not currently provide high school computer science instruction. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Department of Education Empowerment Scholarship Account Fund</b> (EDA2570/A.R.S. § 15-2402)		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C and prior year carry-forward monies.		
<b>Purpose of Fund:</b> To fund ADE's costs of administering the Empowerment Scholarships Accounts (ESA) program authorized by A.R.S. § 15-2402. In addition, ADE transfers Basic State Aid (BSA) monies to the State Treasurer and Department of Revenue (DOR) to fund their ESA administrative duties and to the State Treasurer to fund the ESA accounts themselves. The FY 2018 transfer for the latter was approximately \$60 million. The student account monies and monies transferred to the State Treasurer and DOR for ESA administration are not displayed to avoid double counting of the General Fund. Non-appropriated monies in the fund are prior year carry-forward. (See the <i>Summary of Funds and budget narrative for the State Treasurer and DOR for more information on their respective ESA administrative funding.</i> )		
<b>Appropriated Funds Expended</b>	1,202,000	1,246,100
<b>Non-Appropriated Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	4,195,500	6,449,400
<b>Department of Education Professional Development Revolving Fund</b> (EDA2580/A.R.S. § 15-237.01)		<b>Appropriated</b>
<b>Source of Revenue:</b> Tuition paid for professional development, pursuant to A.R.S. § 15-237.01.		
<b>Purpose of Fund:</b> To offset the cost of providing professional development.		
<b>Funds Expended</b>	361,700	2,700,000
<b>Year-End Fund Balance</b>	53,700	53,700
<b>Early Literacy Grant Program Fund</b> (EDA2181/A.R.S. § 15-249.09)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> Provide support to improve reading skills, literacy and proficiency for students in Grades K-3 in addition to monies received pursuant to A.R.S. § 15-211. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Education Commodity Fund</b> (EDA4210/A.R.S. § 15-1152)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Fees from school districts participating in the federal Food Commodities Program.		
<b>Purpose of Fund:</b> To pay for costs of administering the federal Food Commodities Program.		
<b>Funds Expended</b>	288,100	507,900
<b>Year-End Fund Balance</b>	525,700	417,800
<b>Education Donations Fund</b> (EDA2025/A.R.S. § 35-142)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants received by the department from foundations or other private sector donors.		
<b>Purpose of Fund:</b> To help pay for conferences, programs or other activities sponsored by donor organizations.		
<b>Funds Expended</b>	50,700	61,800
<b>Year-End Fund Balance</b>	389,100	367,300

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 Estimate
<b>Education Learning and Accountability Fund (EDA2552/A.R.S. § 15-249.02)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred from the Arizona Department of Administration (ADOA) Automation Projects Fund (APF), which for FY 2018 received \$7,300,000 from the State General Fund for the Education Learning and Accountability System (ELAS), plus any remaining FY 2017 balances in the fund. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Purpose of Fund:</b> To develop and implement ELAS pursuant to A.R.S. § 15-249.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	571,300	100
<b>Federal Funds (EDA2000/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
<b>Purpose of Fund:</b> To be expended as stipulated by federal statutes that authorize the Federal grants.		
<b>Funds Expended</b>	1,121,804,100	1,206,177,500
<b>Year-End Fund Balance</b>	3,790,800	1,500,100
<b>Golden Rule Special Plate Fund (EDA2366/A.R.S. § 15-243)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> \$17 of the \$25 fee for Golden Rule license plates.		
<b>Purpose of Fund:</b> To fund programs that demonstrate the promotion of the golden rule in schools and communities.		
<b>Funds Expended</b>	200,700	200,700
<b>Year-End Fund Balance</b>	0	0
<b>IGA and ISA Fund (EDA2500/A.R.S. § 35-142E)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred into the fund from Federal Funds (EDA2000) and the Internal Services Fund (EDA4209).		
<b>Purpose of Fund:</b> Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
<b>Funds Expended</b>	4,667,700	1,882,100
<b>Year-End Fund Balance</b>	1,629,000	1,496,900
<b>Indirect Cost Recovery Fund (EDA9000/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
<b>Purpose of Fund:</b> To fund overhead and other indirect costs associated with state level administration of federal programs.		
<b>Funds Expended</b>	5,994,700	7,881,500
<b>Year-End Fund Balance</b>	1,635,100	1,001,500
<b>Internal Services Fund (EDA4209/A.R.S. § 35-142)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal indirect cost monies and intra-office fees for copier services, MIS maintenance, postage and other miscellaneous expenditures.		
<b>Purpose of Fund:</b> Clearing fund for federal indirect costs and miscellaneous intra-office revenues and expenditures.		
<b>Funds Expended</b>	3,943,800	4,385,400
<b>Year-End Fund Balance</b>	2,355,200	1,969,800

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 Estimate
<b>Permanent State School Fund (EDA3138/A.R.S. § 37-521)</b>		<b>Partially-Appropriated</b>
<p><b>Source of Revenue:</b> Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund, up to the amount generated in FY 2001 (\$72,263,000), are automatically appropriated first to pay debt service on State School Facilities Revenue Bonds, Qualified Zone Academy Bonds (QZAB) or State School Trust Revenue Bonds. Remaining monies, if any, are then available to help fund Basic State Aid. All affected bonds were retired by the end of FY 2018, however, so the entire \$72,263,000 is now available to fund Basic State Aid. Expendable earnings beyond the \$72,263,000 total from FY 2001 are automatically deposited into the Classroom Site Fund pursuant to A.R.S. § 37-521B4, except that expendable earnings above \$72,263,000 that are attributable to Proposition 123 are instead used for Basic State Aid.</p> <p>In the display below, the "Funds Expended" total equals the amount used for Basic State Aid. Not included are monies automatically appropriated into the Classroom Site Fund pursuant to A.R.S. § 37-521B4. (See "State Land Trust Bond Debt Service Fund" and "School Improvement Revenue Bond Debt Service Fund" in the Summary of Funds for the School Facilities Board budget for information on other uses of expendable monies from this fund.)</p> <p><b>Purpose of Fund:</b> To support common schools.</p>		
<b>Funds Expended</b>	235,339,100	277,115,300
<b>Year-End Fund Balance</b>	0	0
<b>Production Revolving Fund (EDA4211/A.R.S. § 15-237)</b>		<b>Non-Appropriated</b>
<p><b>Source of Revenue:</b> Print shop collections from in-house and interagency publishing.</p> <p><b>Purpose of Fund:</b> To fund agency print shop expenditures.</p>		
<b>Funds Expended</b>	1,143,700	1,415,600
<b>Year-End Fund Balance</b>	1,086,600	721,000
<b>Proposition 301 (EDA9001/A.R.S. § 15-977)</b>		<b>Expenditure Authority</b>
<p><b>Source of Revenue:</b> The portion of the Proposition 301 sales tax allocated to the Department of Education pursuant to A.R.S. § 42-5029E, except for monies appropriated for school accountability pursuant to A.R.S. § 42-5029E7. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 42-5029E.</p> <p><b>Purpose of Fund:</b> To fund additional school days, school safety, character education, the Failing Schools Tutoring Fund and the Classroom Site Fund. The latter provides additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).</p>		
<b>Funds Expended</b>	515,445,800	531,057,900
<b>Year-End Fund Balance</b>	2,023,700	2,023,700
<b>Proposition 301 Fund (EDA1014/A.R.S. § 42-5029E7)</b>		<b>Appropriated</b>
<p><b>Source of Revenue:</b> Proposition 301 monies appropriated by the Legislature pursuant to A.R.S. § 42-5029E7.</p> <p><b>Purpose of Fund:</b> To fund school accountability. For FY 2019 the entire \$7,000,000 amount is appropriated to the Accountability and Achievement Testing line item in the department's budget.</p>		
<b>Funds Expended</b>	7,000,000	7,000,000
<b>Year-End Fund Balance</b>	0	0
<b>Proposition 301/Classroom Site Fund - Carryforward (EDA9003/A.R.S. § 15-977)</b>		<b>Expenditure Authority</b>
<p><b>Source of Revenue:</b> Carry-forward balances from prior year revenues to the Classroom Site Fund. Classroom Site Fund revenues consist of a portion of the Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E10, and Permanent State School Fund expendable earnings that exceed the FY 2001 level, pursuant to A.R.S. § 37-521B4. Under A.R.S. § 15-977, the per pupil amount distributed each from the Classroom Site Fund is adjusted for any prior year carry-forward or shortfall. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 42-5029E10 (Classroom Site Fund).</p> <p><b>Purpose of Fund:</b> To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).</p>		
<b>Funds Expended</b>	0	36,292,100
<b>Year-End Fund Balance</b>	60,250,200	23,958,100

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 Estimate
<b>Proposition 301/Classroom Site Fund - Land Trust (EDA9002/A.R.S. § 37-521)</b>		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund above the amount generated in FY 2001 (\$72,263,000) are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 42-5029E10 (Classroom Site Fund).		
<b>Purpose of Fund:</b> To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
<b>Funds Expended</b>	92,163,700	103,425,500
<b>Year-End Fund Balance</b>	0	0
<b>Results-Based Funding Fund (EDA2151/A.R.S. § 15-249.08)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> Provide additional funding to high performing schools under a formula prescribed in A.R.S. § 15-249.08. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Rural STEM Program Fund (EDA3046/A.R.S. § 15-249.11)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies appropriated by the Legislature and grants, gifts, devices and donations from any public or private source.		
<b>Purpose of Fund:</b> To support science, technology, engineering and math programs in rural schools.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Special Education Fund (EDA1009/A.R.S. § 15-1182)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> To provide voucher funding for students attending the ASDB pursuant to A.R.S. § 15-1182 or who are placed in a private special education facility pursuant to A.R.S. § 15-1202. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	8,688,200	515,800
<b>Structured English Immersion Fund (EDA2535/A.R.S. § 15-756.04)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> To fund additional instructional costs of English Language Learners. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	3,743,100	3,743,100
<b>Teacher Certification Fund (EDA2399/A.R.S. § 15-248.02)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Fees collected by the Department of Education from teachers and other school personnel who apply for professional certification.		
<b>Purpose of Fund:</b> To provide monies for operation of the department's Teacher Certification program.		
<b>Funds Expended</b>	1,967,300	2,342,700
<b>Year-End Fund Balance</b>	480,100	242,400

SUMMARY OF FUNDS	FY 2018 Actual	FY 2019 Estimate
<b>Technology-Based Language Development and Literacy Intervention Fund</b> (EDA2579/A.R.S. § 15-217)		<b>Appropriated</b>
<b>Source of Revenue:</b> Unused monies from the now-repealed Early Graduation Scholarship Program. The FY 2015 K-12 Education Budget Reconciliation Bill required the Commission for Postsecondary Education to transfer these monies (\$546,800) into the fund from its IGA/ISA Fund by August 1, 2014. As session law, Chapter 17 also appropriated \$300,000 annually from the new fund in FY 2015 and FY 2016 for the pilot program. Laws 2016, Chapter 124 made program monies non-lapsing through FY 2018. Expenditures are not displayed to avoid double counting of appropriations.		
<b>Purpose of Fund:</b> To fund a pilot program to promote English language development and literacy for public school pupils in Grades K-6.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	600	600
<b>Tribal College Dual Enrollment Program Fund</b> (EDA2595/A.R.S. § 15-244.01)		<b>Appropriated</b>
<b>Source of Revenue:</b> Unclaimed lottery prize monies pursuant to A.R.S. § 5-568, other monies appropriated by the Legislature and gifts, grants, devices and other contributions. Laws 2016, Chapter 124 allows \$250,000 of unclaimed lottery prize monies to be transferred to the fund annually.		
<b>Purpose of Fund:</b> To provide choice and access to higher education for high school students in this state by compensating tribal colleges for tuition and fees that are waived to allow high school students to attend classes at tribal colleges.		
<b>Funds Expended</b>	211,000	250,000
<b>Year-End Fund Balance</b>	279,700	279,700
<b>Tribal Gaming</b> (EDA9004/A.R.S. § 15-979)		<b>Expenditure Authority</b>
<b>Source of Revenue:</b> Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts. Any monies received by the department in excess of the budgeted amount are allocated to uses pursuant to A.R.S. § 15-979.		
<b>Purpose of Fund:</b> To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
<b>Funds Expended</b>	27,337,800	45,000,000
<b>Year-End Fund Balance</b>	20,842,900	12,681,100
<b>State Web Portal Fund</b> (EDA2531/A.R.S. § 18-421)		<b>Appropriated</b>
<b>Source of Revenue:</b> Grants, donations, and web portal revenues, including any fees collected from the sale of certain types of motor vehicle records to commercial customers, less revenues deposited into the Highway User Revenue Fund, as stipulated in A.R.S. § 18-421.		
<b>Purpose of Fund:</b> To maintain and upgrade the state's common web portal, including enhancement of existing products and the development of new applications. In addition, Laws 2018, Chapter 290 appropriated \$500,000 for a Code Writers Initiative Pilot Program from the fund for FY 2019. Monies received from private grants or donations, as well as federal grants, are non-appropriated. ( <i>See the ADOA Automation Projects Fund page for more details.</i> )		
<b>Funds Expended</b>	0	500,000
<b>Year-End Fund Balance</b>	0	0
<b>Youth Farm Loan Fund</b> (EDA2136/A.R.S. § 15-1172)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The investment of trust funds held by the United States as trustee for the Arizona Rural Rehabilitation Corporation.		
<b>Purpose of Fund:</b> To furnish financial assistance to deserving young persons, under 25 years of age, who are students or former students of vocational education or to young farmers in organized vocational agriculture classes who are interested in becoming established in farming. The financial assistance is provided as guaranteed loans for those who cannot obtain financing elsewhere.		
<b>Funds Expended</b>	0	26,000
<b>Year-End Fund Balance</b>	160,000	136,000