

Estimated Classroom Site Fund Per Pupil Amount for FY 2018

A.R.S. § 15-977 requires the JLBC Staff to determine by March 30 of each year a per pupil amount from the Classroom Site Fund (CSF) for the upcoming fiscal year. The CSF was established by Proposition 301 from the November 2000 General Election. It receives funding from the 0.6¢ education sales tax established by Proposition 301 and any K-12 state trust land revenues that exceed \$72.3 million, except for increases attributable to Proposition 123. For FY 2018, the JLBC Staff currently estimates that public schools will receive \$386 per pupil from the CSF for FY 2018 on both a cash and “budget capacity” basis, as described below.

Statutory Formula

A.R.S. § 15-977G1 stipulates that the per pupil funding amount from the CSF for a given budget year shall be computed using the estimated “weighted” student count for the current year and estimated resources in the CSF for the budget year, adjusted for any prior year carry-forward or shortfall. The Arizona Department of Education (ADE) currently estimates that the weighted student count for the current year will be 1,374,406 and the JLBC Staff currently estimates that the CSF will have \$530,818,900 in available resources for FY 2018. These 2 estimates would yield a CSF per pupil amount of \$386 per weighted student for FY 2018 (*see attachment*).

Estimated Weighted Student Count

The estimated FY 2018 weighted student count of 1,374,406 is based on preliminary 100-day Average Daily Membership (ADM) counts from school districts for the current year (FY 2017) and projected 100-day ADM counts for charter schools for next year (FY 2018). This is because CSF allocations are based on “student counts,” which for Classroom Site Fund purposes is interpreted to mean “prior year” ADM for districts (FY 2017 for the FY 2018 distribution) and “current year” ADM for charter schools (FY 2018 for the FY 2018 distribution). The portion of the estimated count that pertains to charter schools, therefore, is more uncertain than the district portion because it will depend on actual charter school ADM growth next year.

ADE’s FY 2018 student count estimate includes pupils from the Arizona State Schools for the Deaf and the Blind (ASDB) and the Department of Juvenile Corrections (DJC), since they both also receive CSF funding. Per pupil allocations for public schools and DJC are based on their “Group A weighted” student counts pursuant to A.R.S. § 15-977G. ASDB allocations are based on its “Group B weighted” student counts pursuant to A.R.S. § 15-977L.

Estimated CSF Revenues

The CSF revenue estimate of \$386 per pupil for FY 2018 assumes a 3.9% increase in Proposition 301 sales tax revenues for FY 2017 and a 4.1% increase above FY 2017 for FY 2018. Those growth rates are current JLBC Staff estimates for state sales tax revenues in general (not just from Proposition 301) for FY 2017 and FY 2018.

The \$386 per pupil estimate also includes a projected \$83,093,400 in K-12 endowment earnings for FY 2018. Proposition 301 requires all K-12 endowment earnings above \$72,263,000 to be deposited into the CSF. This requirement does not apply to increases from Proposition 123.

Based on input from the State Treasurer and State Land Department, total K-12 endowment earnings are projected to be \$343,286,000 for FY 2018, including monies from Proposition 123. Of that amount,

an estimated \$235,284,600 would be used for Basic State Aid and \$24,908,000 for School Facilities Board debt service in FY 2018. The remaining \$83,093,400 would be deposited into the CSF pursuant to A.R.S. § 37-521B4.

The \$83,093,400 estimate for CSF endowment earnings for FY 2018 includes \$25,900,000 in one-time funding from recent defaults on installment sales of state trust lands. When defaults occur, principal paid to date on the installment sales is withdrawn from the land trust corpus and distributed to the land's beneficiary (in this case, public schools), since the affected lands can now be resold. The \$25,900,000 from recent defaults is causing the estimated Classroom Site Fund per pupil amount for FY 2018 (\$386) to be \$19 per student higher than it otherwise would be ($\$25,900,000 \div 1,374,406$ weighted students = \$19 per weighted student). Without the one-time monies it would be \$367 ($\$386 - \$19 = \367). The \$25,900,000 in one-time monies will not recur in FY 2019 and subsequent years.

Cash versus "Budget Capacity"

The CSF per pupil amount that is computed each year pursuant to A.R.S. § 15-977G1 represents an amount that school districts and charter schools are authorized to spend ("budget capacity") per pupil for the fiscal year regardless of how much CSF cash actually ends up being available for that year. If CSF cash ends up being insufficient to fully fund the authorized per pupil CSF "budget capacity" amount, school districts and charter schools may borrow cash from some of their other local funds in the short term in order to make up the difference. The following year, however, A.R.S. § 15-977G1 requires a corresponding reduction in CSF per pupil "budget capacity" in order to bring cumulative CSF cash and "budget capacity" back into balance and repay borrowed local funds.

For FY 2011 through FY 2013, CSF "budget capacity" per pupil was less than the available "cash" amount in order to eliminate large CSF cash shortfalls that developed during the Great Recession. Those cumulative cash shortfalls were eliminated in FY 2014, however, so are no longer an issue. As a result, the CSF amount for FY 2018 is \$386 per pupil on both a "cash" and "budget capacity" basis. This means that school districts and charter schools should be able to spend all of their FY 2018 CSF cash on current year CSF expenditures, rather than having to use a portion to address prior year shortfalls.

Potential Impact of Estimation Error

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

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

It should be noted that the \$386 per pupil “cash” and “budget capacity” estimate for FY 2018 does not include adjustments for contingencies related to revenue or enrollment growth. Current law does not make provisions for such adjustments.

FY 2017 Update

In March 2016, the CSF per pupil cash distribution for FY 2017 was estimated at \$332. That estimate remains unchanged under updated calculations.

Estimated Classroom Site Fund Per Pupil Allocation for FY 2018

JLBC Staff
3/29/2017

Notes:

- "Sales Tax" revenue estimates assume 3.9% growth in FY 2017 and 4.1% in FY 2018.
- "Prop 301 Expenditure" estimates for FY 2017 and FY 2018 are based on the distribution formula in A.R.S. § 42-5029E.
- "Endowment Earnings" estimates for FY 2017 and FY 2018 are based on currently available land trust data from the State Treasurer and State Land Department.
- The "Weighted Student Count" estimates for FY 2017 and FY 2018 are from ADE and include ASDB and DJC, which also receive CSF funding.
- The "Cumulative Prior Year Shortfall Per Pupil" amount equals the difference between "cash" and "budget capacity" that schools have received from the Classroom Site Fund (CSF) cumulatively since its inception in FY 2002 (no difference currently projected for FY 2018).

	FY 2016	(original) FY 2017	(revised) FY 2017	(estimated) FY 2018
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Prop 301 Revenues

Sales Tax	643,839,000	671,576,900	668,948,700	696,375,600
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Prop 301 Expenditures

SFB Debt Service	64,147,000	64,142,500	64,142,500	64,133,500
Universities	69,563,000	72,892,100	72,576,700	75,869,100
Community Colleges	17,390,800	18,223,000	18,144,200	18,967,300
Tribal Assistance	775,200	786,100	767,800	775,800
Additional School Days	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000
Accountability Measures / SAIS	7,000,000	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000	25,000,000
Classroom Site Fund	364,182,500	387,752,700	385,537,000	408,849,400
Total (sales tax only)	643,839,000	671,576,900	668,948,700	696,375,600

Classroom Site Fund Revenues

Prop 301 Sales Tax	364,182,500	387,752,700	385,537,000	408,849,400
Endowment Earnings	58,427,700	68,456,700	99,242,700	83,093,400
Prior Year Carryforward	39,906,900	13,850,600	28,393,700	68,700,800
Total Estimated Revenues	462,517,100	470,060,000	513,173,400	560,643,600

Classroom Site Fund Expenditures

Total Estimated Revenues	462,517,100	470,060,000	513,173,400	560,643,600
Less: Backpayments for Prior Year Shortfalls	-	-	-	-
Less: Carryforward to Next Year	(28,393,700)	(22,958,000)	(68,700,800)	(29,824,700)
Net Revenues Available for Current Year	434,123,400	447,102,000	444,472,600	530,818,900
Weighted Student Count	1,329,682	1,346,000	1,338,773	1,374,406
Available Funding Per Weighted Pupil -- Cash	\$326.49	\$332	\$332	\$386
Cumulative Prior Year Shortfall Per Pupil	\$0	\$0	\$0	\$0
Available Funding Per Weighted Pupil -- Budget Capacity	\$326.49	\$332	\$332	\$386