

Estimated Classroom Site Fund Per Pupil Amount for FY 2021

A.R.S. § 15-977 requires the JLBC Staff to determine a per pupil amount from the Classroom Site Fund (CSF) for the upcoming fiscal year. The CSF was established by Proposition 301 (2000). It receives funding from the 0.6¢ education sales tax established by Proposition 301 and a portion of K-12 state land trust revenues.

The JLBC Staff currently estimates that public schools will receive \$425 per weighted pupil from the CSF in FY 2021 on both a cash and "budget capacity" basis. This amount is a reduction of \$(9) from the FY 2020 CSF per pupil amount of \$434. This adjustment consists of 2 different factors. First, we are projecting a decline of \$(49) per weighted pupil due to the COVID-19 economic downturn. Based on the JLBC Staff component of the 4-sector forecast published on April 9, 2020, we project that sales tax collections will decline by (4.2)% in FY 2020 and only increase by 2.2% in FY 2021.

Second, the CSF estimate includes a one-time increase of \$40 per weighted pupil. At the time of the enactment of the 3-year "20 by 2020" plan, the budget envisioned that newly-available CSF monies would be used on a one-time basis in FY 2021 to help finance the third and final year of the teacher pay raise. These monies were previously allocated for School Facilities Board (SFB) debt service, which will be paid off by the end of FY 2020. While the CSF adjustment is one-time, funding for the teacher pay raise is ongoing. Starting in FY 2022, the \$64.1 million of freed-up SFB debt service monies will be redirected from education sales tax revenues to Basic State Aid to help fund the pay raise directly on an ongoing basis.

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 next year (FY 2021) will be 1,368,651 and the JLBC Staff currently estimates that the CSF will have \$581,667,300 in available resources for FY 2021. These 2 estimates yield a CSF per pupil amount of \$425 per weighted student for FY 2021 (*see attachment*).

Estimated Weighted Student Count

The estimated FY 2021 weighted student count of 1,368,651 is based on preliminary 100-day Average Daily Membership (ADM) data from school districts for the current year (FY 2020) and projected 100-day ADM counts for charter schools for next year (FY 2021). CSF allocations are based on "student counts," which for Classroom Site Fund purposes is interpreted to mean prior year ADM for districts (FY 2020 for the FY 2021 distribution) and current year ADM for charter schools (FY 2021 for the FY 2021 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 2021 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 \$425 per weighted pupil for FY 2021 assumes a (4.2)% decrease in Proposition 301 sales tax revenues for FY 2020 and a 2.2% increase above FY 2020 for FY 2021. These are estimates for state sales tax revenues in general (not just from Proposition 301) for FY 2020 and FY 2021. The growth rates represent the JLBC Staff component of the 4-sector forecast published on April 9, 2020.

The \$425 per weighted pupil estimate also includes a projected \$107,132,600 in K-12 endowment earnings for FY 2021. Under Proposition 301, the first 2.5% of the Treasurer's distribution and the Land Department's expendable receipts above \$72,263,000 are deposited into the CSF. Increases from Proposition 123 (2016) are used for Basic State Aid and are not deposited into the CSF.

Based on input from the State Treasurer and State Land Department, total K-12 endowment earnings are projected to be \$407,687,600 for FY 2021, including monies from Proposition 123. Of that amount, an estimated \$300,555,000 would be used for Basic State Aid. The remaining \$107,132,600 would be deposited into the CSF pursuant to A.R.S. § 37-521B4.

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 CSF per pupil "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. A cash shortfall in FY 2020 or FY 2021, however, also is possible due to the highly uncertain nature of CSF revenues for these years.

Potential Impact of Estimation Error

The 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, or vice versa.

If the 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 estimated per pupil amount. 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 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.

The \$425 per pupil “cash” and “budget capacity” estimate for FY 2021 does not include adjustments for contingencies related to revenue or enrollment growth. Current law does not make provisions for such adjustments.

One-Time \$40 Per Pupil Increase

At the time of the enactment of the 3-year "20 by 2020" teacher pay adjustment plan, the budget anticipated that a portion of the third-year increase would be financed from newly-available CSF monies. The original Proposition 301 distribution formula set aside monies annually for SFB debt service payments. FY 2020 is the final year of those payments, which frees up \$64.1 million for the other beneficiaries in the formula in FY 2021. Universities, community colleges, and tribal colleges will be entitled to receive a portion. As envisioned by the original "20 by 2020" plan, the remaining \$54.5 million will go into the CSF to help fund a portion of the teacher pay raise. This amount equates to \$40 per CSF weighted pupil.

Beginning in FY 2022, section 5 of Laws 2020, Chapter 49 (FY 2021 K-12 Budget Reconciliation Bill) requires that the \$64.1 million of education sales tax revenues that were previously designated for SFB debt service instead be directed to ADE for Basic State Aid. Consistent with the 3-year spending plan associated with the enacted FY 2021 budget, this provision will allow costs associated with the teacher pay raise to be funded with an increase to the base level instead of the CSF beginning in FY 2022. As a result, this \$40 increase in CSF per pupil funding is one-time in FY 2021. While the FY 2021 adjustment is one-time from the perspective of the CSF, the teacher pay raise funding is ongoing, as the \$64.1 million of sales tax monies will be part of the Basic State Aid formula in future years.

Estimated Classroom Site Fund Per Pupil Allocation for FY 2021

JLBC Staff
4/10/2020

Notes:

- "Sales Tax" revenue estimates assume (4.2)% growth in FY 2020 and 2.2% in FY 2021.
- "Prop 301 Expenditure" estimates for FY 2020 and FY 2021 are based on the distribution formula in A.R.S. §42-5029E.
- "Endowment Earnings" estimates for FY 2020 and FY 2021 are based on currently available trust land data from the State Treasurer and State Land Department.
- "Weighted Student Count" estimates for FY 2020 and FY 2021 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 2020).

	FY 2019	(original) FY 2020	(revised) FY 2020	(estimated) FY 2021
Prop 301 Revenues				
Sales Tax	756,898,600	784,702,400	725,108,900	741,061,300

Prop 301 Expenditures

SFB Debt Service	64,119,600	64,125,400	64,125,400	0
Universities	83,133,500	86,469,200	79,318,000	88,927,400
Community Colleges	20,783,400	21,617,300	19,829,500	22,231,800
Tribal Assistance	975,700	806,900	987,900	1,058,100
Additional School Days	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000
Accountability Measures / SAIS	7,000,000	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000	25,000,000
Classroom Site Fund	460,105,900	483,903,100	433,067,600	501,063,500
Total (sales tax only)	756,898,600	784,702,400	725,108,900	741,061,300

Classroom Site Fund Revenues

Prop 301 Sales Tax	460,105,900	483,903,100	433,067,600	501,063,500
Endowment Earnings	107,198,400	103,550,100	101,413,400	107,132,600
Prior Year Carryforward	66,879,000	40,163,100	57,529,200	1,523,700
Total Estimated Revenues	634,183,300	627,616,300	592,010,200	609,719,800

Classroom Site Fund Expenditures

Total Estimated Revenues	634,183,300	627,616,300	592,010,200	609,719,800
Less: Backpayments for Prior Year Shortfalls	-	-	-	-
Less: Carryforward to Next Year	(57,529,200)	(25,104,700)	(1,523,700)	(28,052,500)
Net Revenues Available for Current Year	576,654,100	602,511,600	590,486,500	581,667,300
Weighted Student Count	1,363,248	1,388,000	1,360,298	1,368,651
Available Funding Per Weighted Pupil -- Cash	\$423	\$434	\$434	\$425
Cumulative Prior Year Shortfall Per Pupil	\$0	\$0	\$0	\$0
Available Funding Per Weighted Pupil -- Budget Capacity	\$423	\$434	\$434	\$425