

Department of Education

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	171.9	171.9	195.9 ^{1/}
Personal Services	4,390,600	4,545,300	4,545,300
Employee Related Expenditures	1,491,100	1,608,100	1,602,000
Professional and Outside Services	1,434,600	3,730,900	3,730,900
Travel - In State	22,300	23,600	23,600
Travel - Out of State	18,300	25,800	25,800
Other Operating Expenditures	4,038,600	4,396,300	4,516,100
Equipment	122,500	55,400	55,400
OPERATING SUBTOTAL	11,518,000	14,385,400	14,499,100 ^{2/-5/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,822,372,500	3,917,422,400 ^{6/}	4,462,121,900 ^{7/-13/}
State Aid Supplement	50,000,000	50,000,000	50,000,000 ^{14/-15/}
Additional Teacher Salary Increase	0	34,000,000	0
Results-Based Funding	0	37,600,000 ^{6/}	38,600,000
Rural Assistance	0	2,600,000	0
Special Education Fund	32,242,100	32,242,100	25,529,200
Other State Aid to Districts	212,700	983,900	983,900
Current-Year Funding Backfill	31,000,000	0	0
Former District-Sponsored Charter Schools	1,148,000	0	0
Classroom Site Fund	480,754,800	530,818,900	574,995,000 ^{16/}
Instructional Improvement Fund	56,782,100	45,000,000	45,000,000 ^{17/}
Property Tax Relief			
Additional State Aid	397,230,700	410,546,000	413,665,500
Non-Formula Programs			
Accountability and Achievement Testing	16,420,800	16,423,700	16,422,500 ^{18/-19/}
Adult Education	4,498,100	4,636,500	4,634,400
Alternative Teacher Development Program	500,000	500,000	500,000
Arizona Structured English Immersion Fund	4,960,400	4,960,400	4,960,400
Broadband Expansion	0	3,000,000	0
Code Writers Initiative Pilot Program	500,000	0	500,000 ^{20/}
College Credit by Examination Incentive Program	0	5,000,000	5,000,000
Computer Science Pilot Program	0	0	1,000,000
Early Literacy	0	8,000,000	12,000,000
Education Learning and Accountability System	0	0	5,300,000
English Learner Administration	6,495,000	6,519,000	6,509,500 ^{21/}
Geographic Literacy	100,000	100,000	100,000
Gifted Education	0	0	1,000,000
Jobs for Arizona Graduates	0	100,000	100,000
JTED Completion Grants	0	1,000,000	1,000,000 ^{22/-24/}
JTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 ^{25/}
School Safety Program	11,445,600	11,947,600	11,946,900 ^{26/}
State Block Grant for Vocational Education	11,411,000	11,576,300	11,576,300
Teacher Certification	1,936,500	2,404,300	2,387,000
Teacher Professional Development Pilot	0	300,000	0
Tribal College Dual Enrollment Program Fund	123,000	250,000	250,000
AGENCY TOTAL	4,942,651,300	5,153,316,500	5,711,581,600 ^{27/-30/}

	FY 2017 ACTUAL	FY 2018 ESTIMATE	FY 2019 APPROVED
FUND SOURCES			
General Fund	4,079,045,400	4,227,258,400	4,704,652,000
<u>Other Appropriated Funds</u>			
Automation Projects Fund	0	3,000,000	0
Budget Stabilization Fund	0	2,600,000	0
Department of Education Empowerment Scholarship Account Fund	797,900	1,202,000	1,246,100
Department of Education Professional Development Revolving Fund	249,400	2,700,000	2,700,000
Permanent State School Fund	219,804,200	235,343,500	277,115,300
Proposition 301 Fund	7,000,000	7,000,000	7,000,000
State Web Portal Fund	500,000	0	500,000
Teacher Certification Fund	1,814,000	2,363,200	2,342,700
Tribal College Dual Enrollment Program Fund	123,000	250,000	250,000
SUBTOTAL - Other Appropriated Funds	230,288,500	254,458,700	291,154,100
SUBTOTAL - Appropriated Funds	4,309,333,900	4,481,717,100	4,995,806,100
<u>Expenditure Authority Funds</u>			
Proposition 301	480,047,800	504,629,900	531,057,900
Proposition 301/Classroom Site Fund - Land Trust	96,487,500	83,093,400	103,425,500
Proposition 301/Classroom Site Fund - Carryforward	0	38,876,100	36,292,100
Tribal Gaming	56,782,100	45,000,000	45,000,000
SUBTOTAL - Expenditure Authority Funds	633,317,400	671,599,400	715,775,500
SUBTOTAL - Appropriated/Expenditure Authority Funds	4,942,651,300	5,153,316,500	5,711,581,600
Other Non-Appropriated Funds	31,625,800	28,682,900	28,682,900
Federal Funds	1,141,087,700	1,158,886,800	1,158,886,800
TOTAL - ALL SOURCES	6,115,364,800	6,340,886,200	6,899,151,300

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 435 charter schools in their provision of public education from preschool through grade 12.

- 1/ Includes 88.5 GF and 37.4 OF FTE Positions funded from Special Line Items in FY 2019.
- 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/ Notwithstanding A.R.S. § 15-901.03, the Superintendent of Public Instruction may transfer up to \$1,600,000 from the state General Fund appropriation for Basic State Aid for FY 2018 to the Results-Based Funding program for FY 2018 without review by the Joint Legislative Budget Committee. Any amount transferred to the Results-Based Funding program under this section that exceed the amount needed to address a funding shortfall for the Results-Based Funding program for FY 2018 reverts to the state General Fund on June 30, 2018. (General Appropriation Act footnote)
- 7/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2017, Chapter 305. Laws 2018, Chapter 276 also appropriates \$930,727,700 in FY 2020 to reflect the deferral of FY 2019 payments.
- 8/ 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 \$277,115,300 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2019. (General Appropriation Act footnote)
- 9/ 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)
- 10/ 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)

- 11/ 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)
- 12/ The Basic State Aid appropriation for FY 2019 includes a state General Fund increase of \$273,706,100, which the Legislature and Governor intend to be used for teacher salary increase. (General Appropriation Act footnote)
- 13/ A school district or other entity that receives additional funding in FY 2019, FY 2020 and FY 2021 as a result of this act may use the additional monies for increased teacher compensation in FY 2019, FY 2020 and FY 2021. (General Appropriation Act footnote)
- 14/ Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 annually for FY 2016 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 from the General Fund for school districts and charter schools conditional upon passage of Proposition 123 in May 2016. Note: Proposition 123 was approved.
- 15/ The Department of Education shall allocate the appropriated amount to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943, paragraph 2, subdivision (a) and increase the budget limits pursuant to A.R.S. § 15-947 accordingly. For the purposes of this subsection, the weighted student count for a school district that serves as the district of attendance for nonresident pupils shall be increased to include nonresident pupils who attend school in the school district. (Laws 2015, 1st Special Session, Chapter 1, Section 6 footnote)
- 16/ 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)
- 17/ 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)
- 18/ 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)
- 19/ 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)
- 20/ Laws 2018, Chapter 290 appropriated \$500,000 from the State Web Portal Fund for the Code Writers Initiative Pilot Program.
- 21/ 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)
- 22/ Monies appropriated for joint technical education district completion grants are intended to help fund program completion for students who complete at least 50% of a joint technical education program before graduating from high school and who successfully complete the joint technical education district program after graduating from high school. The Department of Education shall develop application procedures for the joint technical education district completion grant program. The procedures shall award grant funding only after an eligible student has successfully completed a joint technical education district program. (General Appropriation Act footnote)
- 23/ If the appropriated amount is insufficient to fund all grant requests from joint technical education districts, the Department of Education shall reduce grant amounts on a proportional basis in order to cap total statewide allocations at \$1,000,000. (General Appropriation Act footnote)
- 24/ The appropriated amount is exempt from the provisions of A.R.S. § 35-190 relating to lapsing of appropriations through FY 2020. (General Appropriation Act footnote)
- 25/ The Department of Education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts. (General Appropriation Act footnote)
- 26/ 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)
- 27/ After review by the Joint Legislative Budget Committee, in FY 2019, the department may use a portion of its FY 2019 state General Fund appropriations for Basic State Aid or Additional State Aid to fund a shortfall in funding for Basic State Aid or Additional State Aid, if any, that occurred in FY 2018. (General Appropriation Act footnote)
- 28/ 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)
- 29/ 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)
- 30/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

ADE's FY 2019 General Fund spending increases by \$477,393,600, or 11.3% above the FY 2018 appropriation. The budget includes prior year base adjustments, current law formula adjustments, a non-formula change, the elimination of one-time funding from FY 2018, and funding for policy changes:

Prior Year Base Adjustments

- An increase of \$9,533,200 for higher-than-budgeted Homeowner's Rebate and 1% Cap costs for FY 2018 ("base adjustment").
- A decrease of \$(1,688,400) for lower-than-budgeted costs for an Additional Teacher Salary Increase for FY 2018.
- An increase of \$1,000,000 for higher-than-budgeted costs for Results-Based Funding for FY 2018.

Current Law Formula Adjustments

- An increase of \$84,010,000 for 1.15% Average Daily Membership (ADM) growth in FY 2019.
- An increase of \$104,941,100 for a 1.8% inflator.
- A decrease of \$(53,142,800) for local property tax growth due to new construction offset by Homeowner’s Rebate impact of \$12,539,000.
- An increase of \$600,000 for property tax statutory changes.
- A decrease of \$(41,260,700) to offset higher available endowment earnings under Proposition 123, including \$(24,903,500) due to expiring School Facilities Board debt service.
- An increase of \$262,400 for Empowerment Scholarship Accounts (ESAs).
- A decrease of \$(8,000,000) from a one-time appropriation of surplus Special Education Fund monies to Basic State Aid.
- An increase of \$33,107,500 for an additional 1.06% teacher salary increase.

The current law formula adjustments total to \$133,056,500.

Non-Formula Change

- An increase of \$4,000,000 for Early Literacy (already appropriated for FY 2019 by Laws 2017, Chapter 305).

Eliminate One-Time Funding

- A decrease of \$(300,000) to eliminate one-time funding for a teacher professional development pilot program.
- A decrease of \$(300,000) to eliminate one-time funding to a school district affected by temporary enrollment losses due to natural disasters.
- An increase of \$59,300 for standard changes.

Policy Changes

- An increase of \$100,000,000 to increase Additional Assistance.
- An increase of \$176,200,000 for additional teacher salary increases.
- A recurring one-time increase of \$64,100,000 for "Proposition 301 Bridge" (additional teacher salary increases) until FY 2022.
- An increase of \$1,585,700 for teacher salary increases in state agencies, such as the Arizona State Schools for the Deaf and the Blind (ASDB).
- An increase of \$1,800,000 to fully fund large Joint Technical Education Districts (JTEDS).
- A decrease of \$(18,952,700) for 1% Cap/secondary property tax changes.
- An increase of \$5,300,000 for information technology funding.

- An increase of \$1,000,000 for a computer science pilot program.
- A one-time increase of \$1,000,000 for Gifted Education.

The policy changes total to \$332,033,000.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$386,246,600 in FY 2020 above FY 2019 and \$384,474,400 in FY 2021 above FY 2020. (See *Other Issues for more information.*)

As a new change for FY 2019, the budget displays monies that the department receives from Proposition 301 and Indian gaming as “Expenditure Authority” funds for greater transparency. Previously they were included in overall totals for the department's non-appropriated funds, so were not separately delineated. This change does not affect the department’s access to funding from these sources, as new footnotes in the General Appropriation Act allow it to spend whatever funding is available to it from them (see *footnotes 4, 5, 11, 16, 17, 19 and 26 in agency summary table*).

The agency summary table displays Expenditure Authority for affected line items for FY 2017 and FY 2018 for comparability with FY 2019.

Operating Budget

The budget includes \$14,499,100 and 70 FTE Positions in FY 2019 for the operating budget. These amounts consist of:

	<u>FY 2019</u>
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 2019 adjustments are as follows:

ESA Administration

The budget includes no change in funding from the Department of Education Empowerment Scholarship Account Fund (DEESAF) in FY 2019 for administration of the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402. This provides the department with \$1,246,100 in ESA administration funding for FY 2019, including funding for statewide adjustments described below.

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 2019 would be as much as \$3,795,900 (an estimated \$75,918,600 in ESA costs for FY 2019 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.)*

In addition, Laws 2017, Chapter 139 establishes a new Department of Revenue Empowerment Scholarship Account Fund (DRESAF) and requires the department to transfer 1/5th of the 5% to the DRESAF annually to fund new ESA administrative duties assigned to the Department of Revenue (DOR) by that legislation. Apart from Chapter 139, the FY 2018 General Appropriation Act appropriated \$50,000 in ESA administration funding from the DRESAF for FY 2019. The establishment of the DRESAF is on hold, however, because Laws 2017, Chapter 139 is suspended due to a citizens' referendum pursuant to A.R.S. § 19-101. *(See DOR budget narrative for more information.)*

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

Proposition 301

The budget includes no change in funding from Proposition 301 Expenditure Authority for the department's operating budget for FY 2019. This provides the department's operating budget with \$1,700,000 in Proposition 301 funding for FY 2019. The \$1,700,000 total includes \$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). *(See Summary narrative for more information on Expenditure Authority.)*

Statewide Adjustments

The budget includes an increase of \$113,700 in FY 2019 for statewide adjustments. This amount consists of:

General Fund	70,900
Department of Education Empowerment Scholarship Account Fund	44,100
Teacher Certification Fund	(1,300)

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$4,462,121,900 in FY 2019 for Basic State Aid. This amount consists of:

General Fund	4,098,726,100
Permanent State School Fund	277,115,300
Proposition 301 Expenditure Authority	86,280,500

The \$4,462,121,900 total does not include local property taxes that will help fund K-12 formula costs for FY 2019, 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.

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

FY 2019 adjustments are as follows:

Eliminate One-Time Supplemental

The budget includes a decrease of \$(300,000) from the General Fund in FY 2019 to eliminate one-time supplemental funding for a school district that experienced temporary enrollment declines in FY 2018 due to natural disasters.

Enrollment Growth

The budget includes an increase of \$84,010,000 from the General Fund in FY 2019 for enrollment growth. This assumes that K-12 ADM will increase by approximately 1.15% in FY 2019 *(see Table 2)*. It further assumes a cost of \$4,860,000 for district growth (900 new students X \$5,400 average formula cost per student) and \$79,150,000 for charter growth (11,814 students X \$6,700 average formula cost per student) based on recent trends.

1.8% Inflation Adjustment

The budget includes an increase of \$104,941,100 from the General Fund in FY 2019 for a 1.8% inflation increase in the per pupil base level prescribed in A.R.S. § 15-901B2, the transportation funding levels prescribed in A.R.S. § 15-945A5 and the charter school Additional Assistance amounts prescribed in A.R.S. § 15-185B. A 1.8% inflation adjustment increases the base level by \$66.30. In addition, the budget increases the base level by an additional \$210.50 for teacher salary increases, as discussed separately below. Together they increase the

Table 1
FY 2019 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2018 Appropriation	\$3,595,798,400
Eliminate One-Time Supplemental	(300,000)
Enrollment Growth @ 1.15%	84,010,000
1.8% Inflation	104,941,100
Property Taxes from New Construction	(53,142,800)
Property Tax - Statutory Changes	600,000
Endowment Earnings	(41,260,700)
Additional Assistance	100,000,000
Teacher Salary Increase - Move Original 2.12%	65,419,100
Teacher Salary Increase - Additional Funding	176,200,000
Teacher Salary Increase - Bridge to Prop 301	64,100,000
Teacher Salary Increase - DOC, DJC & misc	298,600
Large JTEDs	1,800,000
Empowerment Scholarship Accounts	<u>262,400</u>
FY 2019 budget	\$4,098,726,100
Permanent State School Fund	
FY 2018 Appropriation	\$ 235,343,500
Estimated FY 2019 Growth ^{1/}	<u>41,771,800</u>
FY 2019 budget	\$ 277,115,300
Prop 301 Sales Tax (no change) ^{2/}	\$ 86,280,500
Local Property Taxes ^{2/}	
FY 2018 Base - estimated	\$2,479,585,700
Property Taxes from New Construction	48,937,400
Non-State Aid DAA Increase	7,000,000
Non-State Aid Base Level Increases	<u>21,400,300</u>
FY 2019 Estimated ^{3/}	\$2,556,923,400
Grand Total (all sources) ^{4/ 5/}	\$7,019,045,300

^{1/} Includes \$24,903,500 used in prior years for debt service on now-retired School Facilities Board bonds.
^{2/} Non-appropriated, so excluded from appropriated totals.
^{3/} An estimated \$413,665,500 of this total will be funded by the state through Homeowner's Rebate and 1% cap funding.
^{4/} Statutory formula cost would be approximately \$295,029,800 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are assumed to continue in the budget on a session law basis, including the impact on non-state aid districts.
^{5/} 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.

base level to \$3,960.07 versus \$3,683.27 for FY 2018, which is a total increase of 7.52%.

A.R.S. § 15-901.01 (established by Proposition 301) requires the Legislature to increase the "base level or other components of the Revenue Control Limit" (RCL) by 2% or by the change in the GDP price deflator for the most recent prior calendar year, whichever is less. The FY 2019 adjustment of 1.8% equals the currently estimated GDP price deflator for calendar year 2017. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of

Table 2
K-12 ADM (unweighted) ^{1/}

Fiscal Year	District ^{2/}	Charter ^{3/}	Total	Change	% Change
2012	909,530	131,993	1,041,523	7,250	0.7%
2013	910,476	140,199	1,050,675	9,152	0.9%
2014	912,920	152,158	1,065,078	14,403	1.4%
2015	920,209	159,032	1,079,241	14,163	1.3%
2016	920,358	164,588	1,084,946	5,705	0.5%
2017	915,614	179,622	1,095,236	10,290	0.9%
2018 est	916,540	193,008	1,109,548	14,312	1.3%
2019 est	917,440	204,822	1,122,262	12,714	1.15%
2020 est	918,384	218,322	1,136,706	14,444	1.3%
2021 est	919,335	231,822	1,151,157	14,451	1.3%

^{1/} Actuals for FY 2012 through FY 2017 are from ADE payment data. Numbers shown for FY 2014 and FY 2015 have been adjusted by JLBC Staff in an attempt to compensate for data anomalies caused by charter conversions for those fiscal years. Numbers for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).
^{2/} Includes district-sponsored charter schools.
^{3/} Excludes district-sponsored charter schools.

\$2,687.32. (See the FY 2016 Appropriations Report for background information regarding the related Cave Creek, et. al. v Ducey lawsuit.)

Property Taxes from New Construction

The budget includes a decrease of \$(53,142,800) from the General Fund in FY 2019 due to a projected 2.1% increase in statewide Net Assessed Value (NAV) from new construction in FY 2019. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$53,142,800 in FY 2019. It also will decrease state costs by \$(53,142,800), 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 2.82% in FY 2019, resulting in a net 4.92% NAV increase for new construction and existing property combined for FY 2019.

The projected 2.82% NAV increase for existing property will not affect net QTR or SETR collections in FY 2019 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 \$3.94 (from \$4.05 currently) and the SETR will decrease to \$0.4741 (from \$0.4875 currently) in FY 2019 to offset the estimated 2.82% NAV increase for existing property (see Table 3).

TNT Tax Rates			
Tax Rate	FY 2018	FY 2019	
Qualifying Tax Rate (QTR)			
• High School districts and elementary districts located within a high school district	\$2.0234	\$1.9679	
• Unified districts and elementary districts not located within a high school district	\$4.0468	\$3.9358	
• State Equalization Tax Rate (SETR)	\$0.4875	\$0.4741	

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

Property Tax Statutory Changes

The budget includes an increase of \$600,000 from the General Fund in FY 2019 for property tax statutory changes. Laws 2017, Chapter 340 expands accelerated depreciation provisions in A.R.S. § 42-13054 to include Class 6 personal property located within a foreign trade zone or military reuse zone. The reduction to statewide net assessed valuation under Chapter 340 will increase General Fund costs for state aid to school districts by an estimated \$600,000 annually starting in FY 2019.

Endowment Earnings Growth

The budget includes a decrease of \$(41,260,700) from the General Fund and an increase of \$41,771,800 from the Permanent State School Fund in FY 2019 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 \$276,604,200 for FY 2019, which would be \$41,260,700 more than the \$235,343,500 total assumed for FY 2018. The Permanent State School Fund increase factors in an additional \$511,100 savings under revised data (see Table 4).

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 will be available to fund Basic State Aid because the affected SFB bonds will be paid off by the end of FY 2018. This will increase by \$24,903,500 the amount of K-12 Endowment Earnings available to fund Basic State Aid starting in FY 2019 (see Table 4).

Estimated K-12 Endowment Earnings for Basic State Aid ^{1/}			
Source	FY 2018	FY 2019	Change
Original 2.5% ^{2/3/}	\$47,359,500	\$72,263,000	\$24,903,500
New 4.4% ^{3/}	<u>187,984,000</u>	<u>204,852,300</u>	<u>16,868,300</u>
Total	\$235,343,500	\$277,115,300	\$41,771,800

^{1/} K-12 Endowment Earnings also helped fund School Facilities Board (SFB) debt service through FY 2018 and the Classroom Site Fund (see Table 12).

^{2/} The "Change" is due to K-12 Endowment Earnings no longer being needed to fund debt service on SFB bonds after FY 2018.

^{3/} The October 2015 Special Session increased the state trust land distribution percentage in the State Constitution from 2.5% to 6.9% (an increase of 4.4%) if voters approved Proposition 123 in May 2016, which did occur.

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

Rollover

The budget includes no change from the General Fund in FY 2019 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2019) state aid payments until the following fiscal year (now FY 2020).

The FY 2019 rollover will affect only school districts with more than 600 students, as has been the policy since FY 2013. The budget continues to exempt small districts from the K-12 rollover in FY 2019, which continues it at the \$930,727,700 level.

Laws 2017, Chapter 305 advance appropriated \$930,727,700 from the General Fund in FY 2019 to fund the \$930,727,700 deferred obligation from FY 2018. Those monies, therefore, do not appear in the FY 2019 General Appropriation Act (Laws 2018, Chapter 276). Chapter 276, however, advance appropriates \$930,727,700 from the General Fund in FY 2020 to fund the deferred FY 2019 obligation.

Additional Assistance

The budget includes an increase of \$100,000,000 from the General Fund in FY 2019 for Additional Assistance. These monies will partially restore district additional assistance (DAA) and charter additional assistance (CAA) funding that has been suspended since FY 2010. It will increase DAA funding by \$94,972,800 and CAA funding by \$3,407,200

for a total combined increase of \$100,000,000 for FY 2019.

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 budget decreases the DAA and CAA suspensions to \$(257,469,900) and \$(13,628,800), respectively, for FY 2019 (see Tables 5 & 6). In addition, Sections 27 and 28 of the K-12 Education BRB phase out the remaining DAA and CAA suspensions by FY 2023 (see Tables 5 & 6).

Table 5

DAA Suspensions & Restorations Through FY 2023 ^{1/}

<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)	64,367,400	(193,102,400)
2021	(193,102,400)	64,367,400	(128,734,900)
2022	(128,734,900)	64,367,400	(64,367,400)
2023	(64,367,400)	64,367,400	0

1/ 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

The K-12 Education BRB eliminates DAA suspensions for school districts with fewer than 1,100 students for FY 2019. Their suspensions were capped at \$5,000,000 statewide for FY 2012 through FY 2018.

School districts will receive approximately \$177,000,000 of DAA funding in FY 2019, including \$12,400,000 self-funded by non-state aid districts under current estimates. Without the remaining suspension, they instead would receive approximately \$452,000,000 in DAA funding, including approximately \$36,000,000 self-funded by non-state aid districts. DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts (if fully funded)

of \$450.76 to \$601.24 per pupil depending on the pupil's grade level and the size of their school district.

Charter schools will receive approximately \$363,000,000 of CAA funding in FY 2019. Without the remaining suspension, they instead would receive approximately \$377,000,000. 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 K-12 Education BRB increases the current statutory amounts (if fully funded) by 1.8% for inflation to \$1,807.00 per pupil for Grades K-8 and \$2,106.03 per pupil for Grades 9-12.

As in prior years, the budget continues BRB language requiring non-state aid districts to reduce their budgets by the amount that their state aid would be reduced under continuing DAA suspensions if they qualified for state aid. Non-state aid districts are school districts that can fully fund their K-12 formula costs with local property taxes because of their strong local property tax base.

The budget also continues BRB language 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.

Teacher Salary Increases

The budget includes an increase of \$306,017,700 from the General Fund in FY 2019 for teacher salary increases. It will be allocated to schools through an additional \$210.50 base level increase described in the "Background" section below. Monies from the \$210.50 base level increase are intended increase average teacher salaries by 10% for FY 2019.

The budget also appropriates funding in FY 2020 and FY 2021 to provide additional base level increases 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.)

The \$306,017,700 appropriation for FY 2019 includes the amounts shown in Table 7, which are described separately below.

Table 7**Teacher Pay Raise Summary ^{1/}**

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

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

^{2/} 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 \$1,287,100 for FY 2019, \$1,930,700 for FY 2020 and \$2,574,200 for FY 2021.

^{3/} 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 Baseline 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 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 has 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 budget also provides an increase of \$1,287,100 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 \$1,287,100 amount therefore does not appear in *Table 7*. (See narrative for Special Education Fund for more information).

On a related note, the K-12 Education BRB requires each school district and charter school to post in a prominent way on the homepage of its website and on its budget forms the amount of its average teacher salary in the current and prior fiscal year and include the increase in dollar and percentage terms. It also requires the department to submit a report on the information from districts and charter schools statewide to JLBC and OSPB by November 30.

In addition, the K-12 Education BRB requires each school district to display on the homepage of its website in a prominent way its individual profile published in the Auditor General's annual district spending report.

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 million ÷ 1.06 = \$30.7 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 million X 20 = \$645 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 ÷ 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 narrative for 1.8% Inflation Adjustment policy issue above). 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.

Large JTEDs

The budget includes an increase of \$1,800,000 from the General Fund in FY 2019 to fund state aid for JTEDs with more than 2,000 ADM at 100% apart from Additional Assistance suspensions described above. The budgets for FY 2015 through FY 2018 funded state aid for large JTEDs at 95.5%.

Empowerment Scholarship Accounts

The budget includes an increase of \$262,400 from the General Fund in FY 2019 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This assumes an increase of 1,185 ESAs for FY 2019, which was the increase reported for FY 2017. It also assumes that 58% of new ESAs under trend line growth would go to students with disabilities based on FY 2017 data.

The \$262,400 estimate additionally assumes different per pupil costs or savings for different types 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 budget assumes no incremental ESA growth in FY 2019 from the ESA expansion bill from the 2017 Legislative Session (Laws 2017, Chapter 139), since it is subject to a voter referendum pursuant to A.R.S. § 19-101. The referendum vote will occur in November 2018. (See the FY 2018 Appropriations Report for more information on Chapter 139.)

Overall Estimated ESA Costs for FY 2019

The overall cost of ESAs is projected to increase by \$15,700,500 in FY 2019, growing from an estimated \$60,218,100 in FY 2018 to \$75,918,600 in FY 2019 (see Table 8). Except for the assumed \$262,400 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.

<u>Fiscal Year</u>	<u>Program Enrollment</u>	<u>Total Awards</u>
FY 2012	144	\$1,576,000
FY 2013	302	\$5,209,200
FY 2014	761	\$10,200,000
FY 2015	1,311	\$17,333,700
FY 2016	2,175	\$28,590,800
FY 2017	3,360	\$44,517,700
FY 2018 (est)	4,545	\$60,218,100
FY 2019 (est)	5,730	\$75,918,600

^{1/} Figures shown for FY 2012 through FY 2017 are from ADE as of August 2017. Estimates for FY 2018 and FY 2019 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 \$75,918,600 cost for ESAs for FY 2019 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 up to 5% of the funding designated for each student's ESA account. *(Please see the ESA Administration policy issue in the agency's Operating budget narrative for more information.)*

Any of the department's retained monies for ESA administration that are not appropriated or spent are carried forward in the Department of Education Empowerment Scholarship Account Fund to the next fiscal year. At the end of FY 2017 the fund had a carry-forward balance of \$1,885,100.

Additional School Days

The budget includes no change from Proposition 301 Expenditure Authority in FY 2019 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 2019.

Proposition 301 monies for Additional School Days were included in the department's non-appropriated funds totals in prior years. The 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.

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 New Footnotes section below)*.

(See Summary narrative for more information on Expenditure Authority.)

State Aid Supplement

The budget includes \$50,000,000 from the General Fund in FY 2019 for State Aid Supplement funding. This amount is unchanged from FY 2018.

Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 from the General Fund in FY 2016 for State Aid Supplement funding. It also 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, 1st Special Session, Chapter 1. They therefore do not appear in the FY 2019 General Appropriation Act.

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

Additional Teacher Salary Increase

The budget includes no funding from the General Fund in FY 2019 for the Additional Teacher Salary Increase line item. FY 2019 adjustments are as follows:

Transfer Funding to Basic State Aid

The budget includes a decrease of \$(34,000,000) from the General Fund in FY 2019 to transfer existing funding to the Basic State Aid program, where it will help fund the \$210.50 base level increase for teacher salaries for FY 2019. (See *Teacher Salary Increases narrative above under Basic State Aid for more information.*)

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) required a school district or charter school to use its allocation of monies from this line item to give its teachers additional salary increases for FY 2018. (See *the FY 2018 Appropriations Report for more information.*)

Results-Based Funding

The budget includes \$38,600,000 from the General Fund in FY 2019 for Results-Based Funding. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for a prior year base adjustment. The FY 2018 budget appropriated \$37,600,000 for Results-Based Funding (RBF) for FY 2018, but the actual cost is expected to be at least \$38,600,000 for FY 2018. The base budget for the program therefore is being increased by \$1,000,000 for FY 2019 to more fully fund expected program costs for FY 2019.

In addition, Section 106 of the General Appropriation Act allows 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 require JLBC review of the transfer.

Section 26 of the 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. (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.*)

Rural Assistance

The budget includes no funding from the Budget Stabilization Fund in FY 2019 for Rural Assistance. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The budget includes a decrease of \$(2,600,000) from the Budget Stabilization Fund in FY 2019 to eliminate one-time funding for Rural Assistance. The one-time amount was appropriated by the FY 2018 General Appropriation Act from monies earned from the investment of monies in the Budget Stabilization Fund established by A.R.S. § 35-144. (See *the FY 2018 Appropriations Report for more information.*)

Special Education Fund

The budget includes \$25,529,200 and 1 FTE Position from the General Fund in FY 2019 for the Special Education Fund Special Line Item. FY 2019 adjustments are as follows:

One-Time Reduction

The budget includes a one-time decrease of \$(8,000,000) from the General Fund in FY 2019 to fund a portion of special education voucher costs for FY 2019 with surplus carry-forward monies in the Special Education Fund (SEF) established by A.R.S. § 15-1202. The SEF had a carry-forward balance of \$8,242,200 at the end of FY 2017. The budget reduces the state General Fund appropriation into the SEF by \$(8,000,000) for FY 2019 on a one-time basis to spend down these carry-forward monies.

ASDB Teacher Pay Raises

The budget includes an increase of \$1,287,100 from the General Fund for teacher pay raises at the Arizona State Schools for the Deaf and the Blind (ASDB) for FY 2019. (See *Teacher Pay Raises narrative above 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 budget includes \$983,900 from the General Fund in FY 2019 for Other State Aid to Districts. This amount is unchanged from FY 2018.

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 budget includes \$574,995,000 in FY 2019 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

FY 2019 adjustments are as follows:

Caseload and Revenue Changes

The budget includes an increase of \$26,428,000 from Proposition 301 Expenditure Authority for estimated caseload and revenue changes for the CSF for FY 2019. This and other CSF expenditure authority changes for FY 2019 assume a CSF per pupil amount of \$423 for FY 2019, as determined by the JLBC Staff 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.

Caseload and Revenue Changes

The budget includes an increase of \$20,332,100 from Proposition 301/CSF – Land Trust Expenditure Authority for estimated caseload and revenue changes for the CSF for FY 2019.

Carry-Forward Changes

The budget includes a decrease of \$(2,584,000) from Proposition 301/CSF – Carry-Forward Balance Expenditure Authority for estimated changes in CSF carry-forward balances for FY 2019.

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. CSF monies were included in the department’s non-appropriated funds totals in prior years. The 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.

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 footnote #16 in agency summary table above*).

(See Summary narrative for more information on Expenditure Authority.)

Instructional Improvement Fund

The budget includes \$45,000,000 from the Tribal Gaming Expenditure Authority in FY 2019 for the Instructional Improvement Fund. This amount is unchanged from FY 2018.

Tribal Gaming monies were included in the department’s non-appropriated funds totals in prior years. The budget, however, displays 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 footnote #17 in agency summary table above*).

(See Summary narrative for more information on Expenditure Authority.)

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.

Property Tax Relief

Additional State Aid

The budget includes \$413,665,500 from the General Fund in FY 2019 for Additional State Aid. FY 2019 adjustments are as follows:

Prior Year Base Adjustment

The budget includes an increase of \$9,533,200 from the General Fund in FY 2019 to reflect higher-than-budgeted costs for Additional State Aid for FY 2018. The FY 2018 budget assumed that Additional State Aid would cost \$410,546,000 for FY 2018 for the Homeowner’s Rebate and 1% Cap combined. The actual combined cost, however, is \$420,079,200 (\$9,533,200 more), as reported by the Arizona Department of Revenue (DOR) in October 2017 pursuant to A.R.S. § 15-972H. Starting point costs for Additional State Aid for FY 2019 therefore will be \$9,533,200 more than the FY 2018 appropriation.

New Homes

The budget includes an increase of \$12,539,000 from the General Fund in FY 2019 for increased Additional State Aid costs associated with new home construction. The \$12,539,000 estimate assumes that Class 3 properties (owner occupied homes) will account for 50% of statewide property tax growth from new construction in FY 2019 and that the Homeowner’s Rebate percentage will remain at 47.19% for FY 2019. The latter would not change for FY 2019 under current law.

1% Cap Funding for Desegregation Programs

The budget includes a decrease of \$(18,952,700) from the General Fund in FY 2019 for lower assumed 1% Cap costs for desegregation programs. The FY 2019 Revenue BRB (Laws 2018, Chapter 283) requires desegregation programs to be funded with secondary rather than primary property taxes starting in FY 2019 (retroactive to July 1, 2018). The budget assumes a savings of \$(18,952,700) for this issue, as the 1% Cap applies only to primary property taxes and currently funds an estimated \$18,952,700 of primary property taxes for desegregation programs.

Chapter 283 also requires the county treasurer to determine the descriptor for the desegregation levy as a separate item on tax bills.

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 budgets for FY 2016 through FY 2018 appropriated separate amounts for the Homeowner’s Rebate and 1% Cap due to 1% Cap policy changes that the Legislature attempted to implement in FY 2016. Those policy changes, however, were ruled not permissible by the courts in July 2016, so were not implemented. (*See the FY 2018 budget for more information.*)

The FY 2019 budget combines funding for the Homeowner’s Rebate and 1% Cap back into a single line item given the 2016 court ruling and because DOR’s annual Additional State Aid reports pursuant to A.R.S. § 15-972H report only combined Homeowner’s Rebate and 1% Cap costs.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,422,500 and 28.4 FTE Positions in FY 2019 for Accountability and Achievement Testing. These amounts consist of:

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

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(1,200) from the General Fund in FY 2019 for statewide adjustments.

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 \$18,000,000 in FY 2018 and \$19,700,000 in FY 2019 (*see Table 9*).

The Achievement Testing program, however, includes components other than AzMERIT testing. It also includes

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

	<u>FY 2018</u>	<u>FY 2019</u>
Estimated Costs ^{1/}		
AzMERIT	\$18.0	\$19.7
AIMS Science Testing	1.2	1.6
Alternative Special Needs Exam (MSAA)	0.2	0.2
AZELLA ^{2/}	7.1	7.5
Information Technology Support	1.3	1.3
Staff and Administration	1.9	1.9
Menu of Assessments	<u>0.0</u>	<u>3.0</u>
Total	\$29.7	\$35.2
Estimated Available Funding ^{3/}		
General Fund	\$14.3	\$14.3
Proposition 301 - School Accountability ^{4/}	15.7	13.5
Federal Funds	<u>4.7</u>	<u>3.4</u>
Total	\$34.7	\$31.2

- ^{1/} ADE estimates for FY 2019 are preliminary.
^{2/} Arizona English Language Learner Assessment funded through the English Learner Administration line item.
^{3/} FY 2019 estimates include \$5.0 million of assumed carry-forward monies from FY 2018. Surplus Proposition 301 monies can be carried forward to subsequent years.
^{4/} Includes carry-forward monies.

AIMS Science Tests, AZELLA testing for English Learners, alternative exams for special needs students, information technology support and program administration. ADE estimates the cost of these other functions and AzMERIT combined at \$29,700,000 in FY 2018 and \$35,200,000 for FY 2019 (see Table 9).

The budget continues an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs. The budget adds a new footnote indicating that any monies available to the Department of Education 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 footnote #19 in agency summary table). (See Summary narrative for more information on Expenditure Authority.)

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 budget includes \$4,634,400 and 4.3 FTE Positions in FY 2019 for Adult Education. These amounts consist of:

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

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(2,100) from the General Fund in FY 2019 for statewide adjustments.

The program provides instruction in the following areas to adult learners who are at least 16 years of age: 1) English Language Acquisition; 2) Adult Basic Education, including GED preparation; 3) Adult Secondary Education; 4) Civics; and 5) Basic computer literacy skills. Program monies are distributed through a competitive grant process. In FY 2018, 23 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also received \$12,895,900 in federal funding in FY 2018. Its federal monies are subject to non-supplanting and maintenance-of-effort requirements stipulated in federal law.

Alternative Teacher Development Program

The budget includes \$500,000 from the General Fund in FY 2019 for an Alternative Teacher Development Program. This amount is unchanged from FY 2018.

The program is authorized by A.R.S. § 15-552, which requires the establishment of an alternative teacher development program for accelerating the placement of highly qualified individuals into low income schools. Monies in the line item are distributed to the Teach for America program.

Arizona Structured English Immersion Fund

The budget includes \$4,960,400 from the General Fund in FY 2019 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2018.

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 \$4,546,400 to public schools from the fund in FY 2017.

Broadband Expansion

The budget includes no funding from the Automation Projects Fund in FY 2019 for Broadband Expansion. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes a decrease of \$(3,000,000) from the Automation Projects Fund in FY 2019 to remove one-time funding for broadband expansion. The K-12 Education BRB, however, requires 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.

Section 120 of the FY 2018 General Appropriation Act appropriated \$3,000,000 from the Automation Projects Fund to a new Broadband Expansion Fund (BEF) (A.R.S. § 15-249.07A) established by Section 3 of the FY 2018 K-12 Education BRB. (See the FY 2018 Appropriations Report for more information.)

Code Writers Initiative Pilot Program

Laws 2018, Chapter 290 appropriates \$500,000 from the Web Portal Fund in FY 2019 for a Code Writers Initiative Pilot Program. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes a one-time increase of \$500,000 from the State Web Portal Fund in FY 2019 for a Code Writers Initiative Pilot Program. These monies are appropriated by Laws 2018, Chapter 290.

Chapter 290 requires the department to allocate program funding on a competitive grant basis with input from the American Indian Advisory Council to participants who will leverage state monies by also securing non-state funding for the program. Program monies are to be used to introduce computer code writing curriculum for Native American students in grades 9–12.

The program also received a one-time appropriation of \$500,000 for FY 2017.

College Credit by Examination Incentive Program

The budget includes \$5,000,000 from the General Fund in FY 2019 for the College Credit by Examination Incentive Program. This amount is unchanged from FY 2018.

The program provides incentive bonuses to teachers, school districts and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school pursuant to A.R.S. § 15-249.06. The bonus is \$450 per passing score for a student who is enrolled in a school district or charter school where at least 50% of students are eligible for free or reduced-price lunches under the Federal School Lunch program; otherwise, it is \$300 per passing score. Bonuses shall be reduced proportionately if the appropriated amount is insufficient to fully fund them.

The K-12 Education BRB amends A.R.S. § 15-249.06 to add social studies to the exam subject areas that can generate bonuses for school districts and charter schools under the program.

Computer Science Pilot Program

The budget includes \$1,000,000 from the General Fund in FY 2019 for a Computer Science Pilot Program. FY 2019 adjustments are as follows:

New Program

The budget includes an increase of \$1,000,000 from the General Fund in FY 2019 for a new Computer Science Pilot Program to fund quality training for prospective computer science teachers.

The K-12 Education BRB establishes the program and the Computer Science Professional Development Program Fund (CSPDPF) in statute (A.R.S. § 15-249.12). That law 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.

Early Literacy

The budget includes \$12,000,000 from the General Fund in FY 2019 for Early Literacy. FY 2019 adjustments are as follows:

Program Increase

The budget includes an increase of \$4,000,000 from the General Fund in FY 2019 for the Early Literacy program established by A.R.S. § 15-249.09. This will increase program funding to \$12,000,000 for FY 2019 versus \$8,000,000 for its first year (FY 2018).

FY 2019 funding for the program was appropriated by Section 136 of the FY 2018 General Appropriation Act, so

does not appear in the FY 2019 General Appropriation Act.

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

Education Learning and Accountability System

The budget includes \$5,300,000 and 24 FTE Positions from the General Fund in FY 2019 for the Education Learning and Accountability System (ELAS) line item. FY 2019 adjustments are as follows:

Ongoing Funding

The budget includes an increase of \$5,300,000 and 24 FTE Positions from the General Fund in FY 2019 for ongoing ELAS funding.

This is the first year since FY 2013 that ELAS funding appears in the ADE budget. From FY 2014 - FY 2018, ELAS funding was appropriated to the Arizona Department of Administration (ADOA) Automation Projects Fund (APF) rather than ADE. The FY 2019 budget includes no funding from APF for implementing, upgrading and maintaining ELAS. This eliminates \$(7,300,000) in one-time funding appropriated for ELAS by Section 115 of the FY 2018 General Appropriation Act.

The net impact is a \$(2,000,000) reduction in funding for ELAS in FY 2019 compared to FY 2018. However, FY 2019 marks the first year that ELAS funding is designated as ongoing, rather than one-time, in the 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).

ADE's expenditure plan for the \$7,300,000 it received for ELAS via the APF in FY 2018 included \$5,300,000 for maintenance and operation of the system and \$2,000,000 for further development. That expenditure plan was reviewed by the JLBC at its June 2017 meeting.

ADE estimates that an additional \$15,500,000 will be needed from the General Fund to complete ELAS development over the next 3 fiscal years. This amount would be in addition to the current \$5,300,000 of ongoing funding.

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).

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

<u>Fiscal Year</u>	<u>General Fund</u> ^{1/}	<u>Higher Ed Fees</u> ^{2/}	<u>Federal Grants</u> ^{3/}	<u>Total</u>
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	<u>5.3</u>	<u>0.0</u>	<u>0.0</u>	<u>5.3</u>
Total	51.1	8.0	7.3	66.4

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

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 in order 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 planning to replace the core school finance calculation functions of SAIS ("APOR" and "CHAR"), which calculate funding amounts for individual school

districts and charter schools under the Basic State Aid formula.

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

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 will not be executing the contract in FY 2019, stating that third-party oversight was a condition for approval of its development activities. ADE states that the contract will remain in place should additional development funding be appropriated in the future.

English Learner Administration

The budget includes \$6,509,500 and 14.5 FTE Positions from the General Fund in FY 2019 for English Learner Administration. FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(9,500) from the General Fund in FY 2019 for statewide adjustments.

The program is responsible for administering the Arizona English Language Learner Assessment (“AZELLA”) test, which is used to determine whether a student should be classified as an “English Language Learner” (ELL) as defined in A.R.S. § 15-901B9. Students who are classified as ELLs are required to enroll in English language education programs prescribed by A.R.S. §§ 15-751, 15-752 and 15-753 and qualify for ELL weight funding authorized in A.R.S. § 15-943. Approximately 127,000 students were expected to take the AZELLA in FY 2018, including 47,000 for initial testing and 80,000 for retesting to see if they should continue to be classified as ELLs.

The English Learner Administration program was originally authorized by Laws 2006, Chapter 4 in order to address the *Flores v. State of Arizona* litigation. The lawsuit was filed in federal court in 1992 by parents of children enrolled in the Nogales Unified School District. Litigation in the case continued until March 2013, when a federal judge dismissed it. Plaintiffs appealed the federal judge’s ruling, but in June 2015 the federal appellate court upheld the earlier dismissal. In June 2015, the plaintiff attorneys

asked for a rehearing in the case. (See FY 2011 Appropriations Report for additional history on this issue.)

The line item funds costs associated with implementing the English Language Education requirements in A.R.S. § 15-751 through 15-757. Those requirements pertain primarily to additional testing, teacher training and instructional services prescribed for English Learners.

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

Geographic Literacy

The budget includes \$100,000 from the General Fund in FY 2019 for Geographic Literacy. This amount is unchanged from FY 2018.

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

Gifted Education

The budget includes \$1,000,000 in one-time funding from the General Fund in FY 2019 for Gifted Education. FY 2019 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,000,000 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.

Jobs for Arizona Graduates

The budget includes \$100,000 from the General Fund in FY 2019 for a Jobs for Arizona Graduates program. This amount is unchanged from FY 2018.

The program funds a Jobs for Arizona Graduates program.

JTED Completion Grants

The budget includes \$1,000,000 from the General Fund in FY 2019 for JTED Completion Grants. This amount is unchanged from FY 2018.

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 JTED program before graduating from high school and who successfully complete the JTED program after graduating from high school. It further requires the department to award grant funding only after an eligible

student has successfully completed a JTED program. It also stipulates that if the appropriated amount is insufficient to fund all grant requests from JTEDs, 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. The budget continues the footnote for FY 2019, but makes FY 2019 funding lapsing only through FY 2020.

A.R.S. § 15-393D4c prohibits JTEDs from including in their ADM counts students who have already graduated from high school or received a general equivalency diploma or who are over 21 years of age.

JTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2019 for JTED Soft Capital and Equipment. This amount is unchanged from FY 2018.

The line item provides additional funding to small JTEDs for soft capital and equipment. A footnote in the General Appropriation Act requires the department to distribute the appropriated amount to JTEDs with fewer than 2,000 ADM pupils on a pro rata basis for soft capital and equipment expenses. The budget continues the footnote for FY 2019.

School Safety Program

The budget includes \$11,946,900 and 5.1 FTE Positions in FY 2019 for the School Safety program. These amounts consist of:

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

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(700) from the General Fund in FY 2019 for statewide adjustments.

Proposition 301 Expenditure Authority monies for School Safety were included in the department’s non-appropriated funds totals in prior years. The 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.

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

footnote #26 in agency summary table). (See Summary narrative for more information on Expenditure Authority.)

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 budget includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2019 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2018.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. ADE also currently receives approximately \$26,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006, most of which is passed onto local CTE programs. Federal CTE monies are subject to a federal maintenance-of-effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Teacher Certification

The budget includes \$2,387,000 and 21.6 FTE Positions in FY 2019 for Teacher Certification. These amounts consist of:

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

FY 2019 adjustments are as follows:

Statewide Adjustments

The budget includes a decrease of \$(17,300) in FY 2019 for statewide adjustments. This amount consists of:

General Fund	1,900
Teacher Certification Fund	(19,200)

The program processes applications for teacher and administrator certification, including certification renewal. It is funded through fees paid by certification applicants pursuant to A.R.S. § 15-531.

Teacher Professional Development Pilot

The budget includes no funding in FY 2019 for a Teacher Professional Development Pilot Program. FY 2019 adjustments are as follows:

Eliminate One-Time Funding

The budget includes a decrease of \$(300,000) from the General Fund in FY 2019 to eliminate one-time funding for the program.

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

(See the FY 2018 Appropriations Report for more information.)

Tribal College Dual Enrollment Program Fund

The budget includes \$250,000 from the Tribal College Dual Enrollment Program Fund in FY 2019 for the Tribal College Dual Enrollment Program Fund program. This amount is unchanged from FY 2018.

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

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

Other Issues

This section includes information on the following topics:

General Issues

- Long-Term Budget Impacts
- FY 2018 Supplemental
- Additional Legislation

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers

Basic State Aid

- Basic State Aid Formula Description

Non-General Fund Programs

- Proposition 301
- Budget Overrides

Information on these various issues is as follows:

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$386,246,600 in FY 2020 above FY 2019 and \$384,474,400 in FY 2021 above FY 2020. These estimates are based on:

- 1.3% ADM growth for both fiscal years consisting of approximately 900 new ADM for districts and 13,500 new ADM for charters annually.
- GDP inflators of 2% for both FY 2020 and FY 2021 (currently projected at 2.34% for FY 2020 and 2.44% for FY 2021; statute funds the lesser of 2% or the actual rate).
- A \$25 million increase in State Aid Supplement funding in FY 2021, as required by Proposition 123.
- New construction NAV growth of 2.41% for FY 2020 and 2.37% for FY 2021.
- A \$2.7 million increase in state aid costs due to property tax statutory changes in FY 2021.
- General Fund decreases of \$(12.3) million in FY 2020 and \$(8.9) million in FY 2021 for higher endowment earnings.
- Approximately \$300,000 per year for Empowerment Scholarships Account caseload growth.
- An \$8 million increase in FY 2020 due to surplus Special Education Fund monies being available for FY 2019 only.
- Increases of \$164.7 million in FY 2020 and \$124.5 million in FY 2021 (plus an additional \$50 million from

the Classroom Site Fund) for additional teacher pay raises.

- Increases of \$67.8 million in both FY 2020 and FY 2021 for Additional Assistance restorations.

FY 2018 Supplemental

The FY 2019 budget includes a FY 2018 supplemental of \$300,000 from the General Fund for Basic State Aid. (Please see *Basic State Aid* for further details.)

Additional Legislation

Civics Education

Laws 2018, Chapter 289 amends A.R.S. § 15-701.01 to require the State Board of Education to include American civics education in academic standards prescribed for social studies. It also requires the department to develop a 5-year pilot program to begin in FY 2020 for American civics education in grades 9-12. Chapter 289 appropriates \$500,000 for the program in FY 2020.

Noncustodial Federal Monies

Laws 2018, Chapter 250 requires the department to submit to the Joint Legislative Budget Committee for review each year by December 1 a report detailing all federal monies it receives and how they were allocated. The report shall differentiate between noncustodial federal monies and all other federal monies.

Chapter 250 defines "noncustodial federal monies" as meeting at least one of the following criteria:

- are designated by the federal government as block grant monies
- are designated by the federal government as general revenue sharing monies
- provide this state with broad authority to make spending decisions regarding the development, implementation or operation of a program or service
- are considered essential to meet total spending obligations of a federally required or matched program or service authorized by the Legislature in which the federal government requires at least 1% of the program or service funding to come from this state.

Chapter 250 excludes from "noncustodial federal monies" any federal monies awarded directly to school districts or charter schools.

School Finance Provisions

In addition to other provisions described above, the K-12 BRB makes the following changes:

- As permanent law, gives the State Board for Charter Schools authority to close charter schools based on failure to meet financial performance expectations.
- As permanent law, specifies a definition of "rural" for purposes of aligning eligibility for federal K-12 grants.
- As session law, allows Cave Creek Unified to increase its General Budget Limit by \$1.5 million in FY 2019.

Endowment Earnings

In FY 2017, endowment earnings from state trust lands funded approximately \$350.5 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 2017, public schools received \$350.5 million of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$80.9 million from the Land Department and \$269.6 million from the State Treasurer (see Table 11).

Source	2015	2017 ^{1/}	2018 est	2019 est ^{2/}
Land Department	53.2	80.9	55.0	55.0
Treasurer	76.0	269.6	294.8	321.3
Total	129.2	350.5	349.8	376.3

^{1/} Land Department FY 2017 revenue includes \$25.9 million of forfeited land purchase payments from cancelled contracts (one-time monies).
^{2/} Assumes no change in trust land lease revenues for FY 2019.

Table 11 shows that K-12 endowment earnings are estimated to equal \$349.8 million in FY 2018 and \$376.3 million in FY 2019.

Of the \$350.5 million in K-12 expendable earnings generated for FY 2017, \$219.3 million was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3 and \$24.9 million to fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 (see Table 12). The remaining \$106.3 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.)

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%.

Source	2015	2017	2018 ^{1/}	2019 ^{1/}
Basic State Aid	47.3	219.3	235.3	277.2
SFB Debt Service	25.0	24.9	24.9	0 ^{3/}
Classroom Site Fund ^{2/}	56.9	106.3	89.6	99.1
Total	129.2	350.5	349.8	376.3

^{1/} Estimated
^{2/} Growth in FY 2017 is due to default on prior land purchase, which converts past principal payments into one-time expendable earnings.
^{3/} \$24.9 million annual SFB debt service payments ended after FY 2018.

Since 1992, economic conditions would have met the 1-2% threshold in 1 year and would have met the 1% threshold in 3 years.

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

Beginning in FY 2026, the proposition allows (but does not require) the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpassed 49% of the total state General Fund appropriations. If K-12 spending surpassed 50%, the state could temporarily suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount. Currently, K-12 spending constitutes approximately 42% of total state General Fund appropriations.

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

Basic State Aid Formula Description

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula “equalizes” formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base 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) in order to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount, plus the district's share of State Equalization Tax Rate (SETR) revenues (A.R.S. § 15-994), if any, are then subtracted from its equalization base.

If the district's combined QTR and SETR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its "local share" funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district's formula funding entitlement), or higher if the district 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 of their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.

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 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 \$384.3 million (57.6%) of the \$667.5 million collected for FY 2017 (*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 2017 were \$480.8 million (*see Table 13*).

Proposition 123 from the October 2015 Special Session further amended A.R.S. § 37-521B4 to dedicate all growth in state land trust revenues from the voter-approved 4.4% increase in the trust distribution percentage (from 2.5% previously to 6.9% through FY 2025) to Basic State Aid, rather than to the Classroom Site Fund. The latter, however, will continue to receive all growth in the original 2.5% distribution after FY 2001 to the extent that those earnings plus related earnings from the State Land Department exceed \$72.3 million. The distributions in A.R.S. § 37-521B4 did not expire after FY 2021, so were unaffected by Laws 2018, Chapter 74.

The \$384.3 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2017 does not include \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in *Table 13*. Those 2 amounts combined equaled \$487.1 million for FY 2017.

ADE distributed \$332 per pupil from the Classroom Site Fund in FY 2017. Those monies were in addition to funds allocated through the Basic State Aid formula. School

districts and charter schools may use Classroom Site Fund monies for any purpose listed in A.R.S. § 15-977H, which includes items such as class size reductions and teacher compensation.

The Classroom Site Fund is expected to distribute \$386 per pupil for FY 2018 and \$423 per pupil for FY 2019 pursuant to A.R.S. § 15-977G1.

Budget Overrides

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

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

Table 13

PROPOSITION 301 SALES TAX REVENUES		Proposition 301 Monies (FY 2017 Actual) (\$ in Millions)	
Recipient	Amount		Comment
School Facilities Board	\$64.1		For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	72.4		Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	18.1		Receive 3% of monies after SFB debt service.
Tribal Colleges	0.8		Same formula as for community colleges.
Income Tax Credit	<u>25.0</u>		For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	\$180.4		
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>384.3</u>		Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	\$487.1		
Total - Prop 301 Sales Tax	\$667.5		
CLASSROOM SITE FUND EXPENDITURES (ALL SOURCES)			
Prop 301 Sales Tax (from above)	384.3		
Prop 301/CSF - Land Trust	96.5		
Prop 301/CSF - Carry-Forward	<u>0.0</u>		
Total – Classroom Site Fund	\$480.8^{1/}		

^{1/} Total disbursements reported for FY 2017 in ADE’s FY 2019 budget request from August 2017. Does not match estimated amounts in JLBC Staff Classroom Site Fund (CSF) memo dated 3/29/2017, as the latter were estimates based on data available at the time rather than year-end actuals.

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 2018, 94 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 2 had “Special Program” overrides pursuant to A.R.S. § 15-482, and 25 had District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2018 included \$490.7 million for M&O overrides, \$1.3 million for Special Program overrides and \$83.4 million for District Additional Assistance overrides. Grand total budgeted override funding for FY 2018 therefore equaled \$575.4 million, which was \$33.5 million above the \$541.9 million amount budgeted for all overrides collectively in FY 2017 (see Table 14). (See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.)

<u>Type of Override</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>Change</u>
M&O	466.0	490.7	24.7
Special Program	0.9	1.3	0.4
Additional Assistance	<u>75.0</u>	<u>83.4</u>	<u>8.4</u>
Total	541.9	575.4	33.5

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 2017 and FY 2018.