

## Department of Education

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
<b>OPERATING BUDGET</b>			
<i>Full Time Equivalent Positions</i>	175.9	175.9	175.9
Personal Services	4,303,100	4,919,000	4,919,000
Employee Related Expenditures	1,575,000	1,842,200	1,842,200
Professional and Outside Services	125,600	241,300	241,300
Travel - In State	29,400	42,900	42,900
Travel - Out of State	130,600	110,700	110,700
Other Operating Expenditures	1,944,300	1,252,500	1,252,500
Equipment	476,400	193,500	193,500
<b>OPERATING SUBTOTAL</b>	<b>8,584,400</b>	<b>8,602,100</b>	<b>8,602,100</b>
<b>SPECIAL LINE ITEMS</b>			
<b>Formula Programs</b>			
Basic State Aid	3,251,186,200	3,327,810,300	3,497,958,800
K-3 Reading	40,016,100	40,007,700	40,007,700
School Year 2013-2014 School District Charter School Conversions	0	24,500,000	0
Student Success Funding	0	21,500,000	21,500,000
Additional State Aid - Homeowner's Rebate	336,785,700	352,502,000	362,803,700
Additional State Aid - 1% Cap	0	0	27,600,000
Special Education Fund	33,242,100	33,242,100	32,242,100
Other State Aid to Districts	56,400	983,900	983,900
<b>Non-Formula Programs</b>			
Accountability and Achievement Testing	3,591,600	18,223,600	18,223,600
Adult Education	4,500,000	4,500,000	4,500,000
Arizona Structured English Immersion Fund	8,791,400	4,960,400	4,960,400
English Learner Administration	3,999,200	6,516,800	6,516,800
Information Technology Certifications	0	1,000,000	1,000,000
JTED Performance Pay	0	500,000	0
School Safety Program	2,972,200	3,646,500	3,646,500
State Block Grant for Vocational Education	11,573,400	11,576,300	11,576,300
Student Success Fund Deposit	2,400,000	22,400,000	22,400,000
Teacher Certification	1,689,500	1,842,500	1,842,500
Technology-Based Language Development and Literacy Intervention Pilot Program	0	300,000	246,800
<b>State Board of Education</b>			
State Board of Education	1,543,300	1,614,600	1,614,600
<b>AGENCY TOTAL</b>	<b>3,710,931,500</b>	<b>3,886,228,800</b>	<b>4,068,225,800</b>
<b>FUND SOURCES</b>			
General Fund	3,661,765,500	3,808,392,700	3,989,558,900
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	200,000	200,100	200,100
Permanent State School Fund	46,475,500	46,475,500	47,359,500
Proposition 301 Fund	371,100	7,000,000	7,000,000
Student Success Fund	0	21,500,000	21,500,000
Teacher Certification Fund	2,119,400	2,360,500	2,360,500
Technology-Based Language Development and Literacy Intervention Fund	0	300,000	246,800
SUBTOTAL - Other Appropriated Funds	49,166,000	77,836,100	78,666,900
<b>SUBTOTAL - Appropriated Funds</b>	<b>3,710,931,500</b>	<b>3,886,228,800</b>	<b>4,068,225,800</b>

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 BASELINE
Other Non-Appropriated Funds	543,237,300	558,478,300	558,478,300
Federal Funds	1,075,165,000	1,082,395,400	1,074,395,900
<b>TOTAL - ALL SOURCES</b>	<b>5,329,333,800</b>	<b>5,527,102,500</b>	<b>5,701,100,000</b>

**AGENCY DESCRIPTION** — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2016 it is anticipated that the department will oversee 237 school districts, accommodation districts and Joint Technological Education Districts (JTEDs) and approximately 450 charter schools in their provision of public education from preschool through grade 12.

### Summary

ADE's FY 2016 General Fund Baseline spending would increase by \$181,166,200, or 4.8%. The Baseline includes:

- An increase of \$16,500,000 for higher than budgeted Average Daily Membership (ADM) growth in FY 2015 (FY 2015 "base adjustment").
- An increase of \$7,407,200 for higher than budgeted "1% cap" costs for FY 2015 (FY 2015 "base adjustment").
- An increase of \$82,177,100 for 1.4% Average Daily Membership (ADM) growth in FY 2016.
- An increase of \$22,500,000 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$87,040,300 for a 1.59% inflator.
- A decrease of \$(36,778,400) for local property tax growth due to new construction (includes related Homeowner's Rebate impact).
- An increase of \$26,000,000 for higher Homeowner's Rebate costs due to recent statutory changes.
- A decrease of \$(24,500,000) for charter conversions.
- An increase of \$3,220,700 for a new Joint Technical Education District (JTED) in Yuma County.
- A decrease of \$(1,000,000) for lower special education voucher caseloads.
- A decrease of \$(884,000) to offset higher available endowment earnings.
- A decrease of \$(716,700) for final year of 5-year Career Ladder phase out.
- A decrease of \$(500,000) to eliminate one-time funding for JTED Performance Pay.
- An increase of \$700,000 for Empowerment Scholarship Accounts (ESAs).

The 2 FY 2015 base adjustments plus a one-time property tax settlement cost of \$2,953,900 from the General Fund in FY 2015 result in an overall projected supplemental requirement of \$26,861,100 for FY 2015.

The Baseline does not include K-12 inflation litigation adjustments (*see 1.59% Inflation Adjustment policy issue below for more information*).

### Operating Budget

The Baseline includes \$8,602,100 and 92.9 FTE Positions in FY 2016 for the operating budget. These amounts consist of:

	<b>FY 2016</b>
General Fund	\$8,263,800
Department of Education Empowerment	
Scholarship Account Fund	200,100
Teacher Certification Fund	138,200

These amounts are unchanged from FY 2015.

ADE's operating budget includes funding for administering the Empowerment Scholarship Account (ESA) program authorized in A.R.S. § 15-2402.

### Formula Programs

#### Basic State Aid

The Baseline includes \$3,497,958,800 in FY 2016 for Basic State Aid. This amount consists of:

General Fund	3,450,599,300
Permanent State School Fund	47,359,500

The \$3,497,958,800 total does not include \$86,280,500 in "additional school day" funding from Proposition 301 that will be allocated through Basic State Aid in FY 2016 because those monies are non-appropriated (*see Table 1*). It also excludes local property taxes that will help fund K-12 formula costs for FY 2016, as they also are non-appropriated. In addition, it excludes \$40,007,700 for the K-3 Reading weight authorized in A.R.S. § 15-943 and \$21,500,000 for Student Success Funding authorized by A.R.S. § 15-917, as those monies are appropriated to separate line items (*see narrative for K-3 Reading and Student Success Funding line items below*).

(See Basic State Aid Formula Description under Other Issues for Legislative Consideration for background information regarding the Basic State Aid formula.)

The \$3,497,958,800 Baseline total would include a net General Fund increase of \$169,264,500 and an increase of \$884,000 from the Permanent State School Fund for FY 2016. FY 2016 adjustments would be as follows:

<b>General Fund</b>	
FY 2015 Appropriation	\$3,281,334,800
Base Adjustment – FY15 Shortfall	16,500,000
Enrollment Growth @ 1.4%	82,177,100
Higher Average Cost Per Pupil	22,500,000
1.59% Inflator	87,040,300
Property Taxes - New Construction	(41,272,900)
Yuma County JTED	3,220,700
Career Ladder Phase Out	(716,700)
Endowment Earnings	(884,000)
Empowerment Scholarship Accounts	700,000
FY 2015 budget	3,450,599,300
<b>K-3 Reading Program</b> (separate Line Item)	40,007,800
<b>FY 2014 Charter Conversions</b>	(24,500,000)
<b>Permanent State School Fund</b> (no change)	47,359,500
<b>Prop 301 Sales Tax</b> (no change) <sup>1/</sup>	86,280,500
<b>Local Property Taxes</b> <sup>1/</sup>	
FY 2015 Base	2,398,911,300
Property Taxes - New Construction	41,272,900
FY 2016 Estimated <sup>2/</sup>	2,440,184,200
<b>Grand Total (all sources)</b> <sup>3/</sup>	<b>\$6,039,931,100</b>

1/ Non-appropriated, so excluded from appropriated totals.  
2/ An estimated \$390,403,700 of this total will be funded by the state through Homeowner’s Rebate and 1% cap funding.  
3/ Statutory formula cost would be approximately \$275,700,000 higher without the District Additional Assistance (DAA), Charter Additional Assistance (CAA) and large JTED reductions that are continued in the budget on a session law basis, including the impact on non-state aid districts.

**Base Adjustment GF 16,500,000**

The Baseline includes an increase of \$16,500,000 from the General Fund in FY 2016 in order to adjust the program’s base budget for a projected \$(16,500,000) shortfall in program funding for FY 2015. That shortfall would increase starting point costs for the program for FY 2016 by \$16,500,000. The \$(16,500,000) shortfall estimate for FY 2015 is preliminary in nature and subject to substantial revision as additional FY 2015 data become available. (See FY 2015 Supplemental narrative under Other Issues for Legislative Consideration for more information.)

**Enrollment Growth GF 82,177,100**

The Baseline includes an increase of \$82,177,100 from the General Fund in FY 2016 for enrollment growth. This assumes that K-12 ADM will increase by 1.4% in FY 2016, or slightly less than the preliminary 1.6% growth

rate for FY 2014 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

<b>Fiscal Year</b>	<b>District<sup>2/</sup></b>	<b>Charter<sup>3/</sup></b>	<b>Total</b>	<b>Change</b>	<b>% Change</b>
2009	941,694	100,590	1,042,284	1,036	0.1%
2010	936,435	110,231	1,046,666	4,382	0.4%
2011	914,952	119,321	1,034,273	(12,393)	(1.2)%
2012	909,530	131,993	1,041,523	7,251	0.7%
2013	910,505	140,199	1,050,704	9,181	0.9%
2014 est	915,143	152,158	1,067,301	16,596	1.6%
2015 est	918,052	164,180	1,082,232	14,931	1.4%
2016 est	921,053	176,207	1,097,260	15,028	1.4%
2017 est	924,097	188,365	1,112,462	15,202	1.4%
2018 est	927,185	200,470	1,127,655	15,193	1.4%

1/ Actuals for FY 2009 through FY 2014 are from ADE payment data (FY 2014 data not yet final). Figures for other years are current JLBC Staff estimates. Excludes students enrolled at the Arizona State Schools for the Deaf and the Blind (ASDB).  
2/ Includes district-sponsored charter schools.  
3/ Excludes district-sponsored charter schools.

**Higher Average Cost Per Pupil GF 22,500,000**

The Baseline includes an increase of \$22,500,000 from the General Fund in FY 2016 for growth in the average Basic State Aid cost per pupil for FY 2016. The average cost per pupil increases annually due to ongoing growth in the proportion of K-12 pupils who are enrolled in charter schools or special education programs. Charter school students typically receive more formula funding per pupil than non-charter school students (although they do not receive local bond and override funding) and special education students receive “add on” funding that increases their average per pupil costs.

The \$22,500,000 estimate includes \$12,000,000 for charter school pupils and \$10,500,000 for special education students in FY 2016. The charter estimate assumes that board sponsored charter schools will continue to grow by approximately 12,000 ADM in FY 2016 and receive approximately \$1,000 more per pupil than non-charter pupils (12,000 X \$1,000 = \$12,000,000). The special education estimate assumes that the statewide special education weighted student count will increase by approximately 3,000 ADM in FY 2016 (see Table 3) and an average per pupil base level “add on” of \$3,500 (3,000 X \$3,500 = \$10,500,000). The assumed \$3,500 base level amount is “add on” in nature for special education pupils because it is in addition to base level funding that they generate under the “main” (non-special education) part of the Basic State Aid formula.

**Table 3**

**Special Education ADM (weighted) <sup>1/</sup>**

<b>Fiscal Year</b>	<b>Districts</b>	<b>Charters</b>	<b>Total</b>	<b>Change</b>	<b>% Change</b>
2009	81,311	3,239	84,550	5,219	6.6%
2010	83,450	4,104	87,554	3,004	3.6%
2011	88,633	5,189	93,822	6,269	7.2%
2012	92,738	5,858	98,596	4,774	5.1%
2013	95,560	6,522	102,082	3,485	3.5%
2014 est	95,034	7,698	102,732	650	0.6%
2015 est	95,984	9,748	105,732	3,000	2.9%
2016 est	96,944	11,788	108,732	3,000	2.8%

<sup>1/</sup> Actuals for FY 2009 through FY 2014 are from ADE payment data. Excludes "Group B" category that only receives funding weight of 0.003 (293 additional "weighted" students for FY 2014) and students enrolled at ASDB (FY 2014 data not yet final).

**1.59% Inflation Adjustment GF 87,040,300**

The Baseline includes an increase of \$87,040,300 from the General Fund in FY 2016 for a 1.59% 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. These inflation adjustments would result in a base level of \$3,426.74 per pupil for FY 2016 versus \$3,373.11 for FY 2015.

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 assumed FY 2016 adjustment is 1.59%, which equals the currently projected GDP price deflator for calendar year 2014. A.R.S. § 15-901.01 prohibits the Legislature from setting a base level that is lower than the FY 2002 base level of \$2,687.32.

The budgets for FY 2011 through FY 2013 provided inflation increases for transportation and charter school Additional Assistance only. The State Supreme Court ruled in September 2013 (*Cave Creek Unified, et. al. v. Ducey*) that the state must inflate the K-12 per pupil "base level," as well as transportation and charter Additional Assistance. It also remanded the case to Superior Court for resolution of funding amounts needed in order to address its ruling.

In August 2014, the Superior Court issued a judgment requiring the state to reset the base level to \$3,609 per pupil (\$236 higher) for FY 2015. It also scheduled evidentiary hearings for late October 2014 in order to determine whether the state also had to make back payments to schools for unfunded inflation in prior years.

A \$236 per pupil base level adjustment would increase Basic State Aid costs by an estimated \$332,032,000 in FY 2015 and \$336,680,400 in FY 2016 relative to current law.

In addition, the plaintiffs are seeking an estimated \$1,262,966,600 in back payments for unfunded inflation in prior years. This amount equals the cumulative sum of estimated unfunded inflation from recent years when the base level was not adjusted for inflation (FY 2009, FY 2011, FY 2012 and FY 2013). A ruling on the back payment issue remains pending as of early January 2015.

**Property Taxes from New Construction GF (41,272,900)**

The Baseline includes a decrease of \$(41,272,900) from the General Fund in FY 2016 due to a projected 1.7% increase in statewide Net Assessed Value (NAV) from new construction in FY 2016. This will increase local property tax revenues from the K-12 "Qualifying Tax Rate" (QTR) and State Equalization Tax Rate (SETR) by an estimated \$41,272,900 in FY 2016. It also will decrease state costs by \$(41,272,900), since QTR and SETR revenues offset state formula costs on a dollar for dollar basis.

Statewide NAV for property already on the tax rolls ("existing property") is expected to increase by 1.9% in FY 2016, resulting in a net 3.6% NAV increase for new construction and existing property combined for FY 2016.

The projected 1.9% NAV increase for existing property will not affect net QTR or SETR collections in FY 2016 because A.R.S. § 41-1276 (the "Truth in Taxation" or "TNT" law) requires the QTR and SETR to be adjusted each year in order to offset NAV changes for existing properties. As a result, the QTR will decrease to an estimated \$4.15 (from \$4.22 currently) and the SETR will decrease to \$0.4994 (from \$0.5089 currently) in FY 2016 in order to offset the estimated 1.9% NAV increase for existing property (*see Table 4*).

**Table 4**

**TNT Tax Rates**

<b>Tax Rate</b>	<b>FY 2015</b>	<b>FY 2016</b>
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.1123	\$2.0730
• Unified districts and elementary districts not located within a high school district	\$4.2246	\$4.1460
• State Equalization Tax Rate (SETR)	\$0.5089	\$0.4994

On a related note, Proposition 117 from the November 2012 General Election, caps annual growth in property values at 5% starting in FY 2016. The proposition will not affect K-12 QTR and SETR revenues from existing property, since they already are held constant from year to year by TNT. Proposition 117 also should not affect school district override revenues, since they are based on a district's Revenue Control Limit rather than the size of its tax base. Proposition 117, however, could affect K-12 bonding, since caps on public school bonding are based on the size of a district's tax base. Proposition 117 will slow tax base growth in the future for any year that otherwise



In addition to suspending a portion of DAA and CAA, the Baseline would continue to suspend 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2016 by funding their state aid at 95.5% of the full funding amount apart from unrelated DAA suspensions. This would suspend an estimated \$1,747,400 of large JTED formula funding for FY 2016.

The Baseline also would continue to cap total statewide DAA reductions for school districts with less than 1,100 students at \$5,000,000 for FY 2016.

**Empowerment Scholarship      GF      700,000  
Accounts**

The Baseline includes an increase of \$700,000 from the General Fund in FY 2016 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. This assumes that approximately 130 non-special education students who otherwise would attend private school (primarily incoming Kindergartners who live within the boundaries of a “D or F” school) would receive ESAs in FY 2016 (130 students X \$5,100 estimated average ESA cost for non-disabled pupils ≈ \$700,000). It also assumes that all other categories of new ESA students (such as disabled students who formerly attended school district or charter schools, and non-disabled students, such as from military families, who also qualify for ESAs) collectively would result in no net new cost based on formula modeling.

Eligible students can use monies in an ESA 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 displaced or disabled School Tuition Organization (STO) scholarship recipient in the prior year, or an incoming kindergartner:

- 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 attended a failing school in the prior year.
- An incoming Kindergartner who resides within the boundaries of a failing school.
- A child with an active duty military parent.

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

Laws 2013, Chapter 250 caps the number of new ESAs approved by the department each year at 0.5% of total public school enrollment through calendar year 2019, or approximately 5,400 new students annually. Current ESA growth is substantially below this level, as the 1,869 ESAs approved for FY 2015 represent an increase of only 554 net students above the FY 2014 level (see Table 5).

<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 (est)	1,315	\$17,300,000
FY 2016 (est)	1,869	\$24,400,000

<sup>1/</sup> ADE data and estimates as of July 2014. “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 is unknown because it would depend in part on where individual ESA recipients would have attended school apart from the program, which is unknown.

Chapter 250 also amended the funding formula for the ESA program to include “. . . an amount that is equivalent to ninety percent of the sum of the base support level and additional assistance prescribed in sections 15-185 and 15-943 for that particular student if that student were attending a charter school.” The impact of this change has been unclear due to varying interpretations of the enacted language.

In May 2014, however, the Superintendent of Public Instruction indicated that starting in FY 2015 the department would interpret it as providing 90% of charter additional assistance to all ESA recipients, including those who did not previously attend charter schools. ADE estimates that this change will cause ESAs as a whole to cost about 9% than they would have without this policy change, which would be approximately \$1,557,000 for FY 2015 (\$17,300,000 estimated ESA cost for FY 2015 [from Table 5] X 9% = \$1,557,000).

The Baseline does not include a policy issue for this change for FY 2016, as it already would be reflected in the department’s base budget from FY 2015. It could be responsible, however, for part of the estimated \$16,500,000 Basic State Aid funding shortfall for FY 2015 (see FY 2015 Supplemental narrative under Other Issues for Legislative Consideration for more information).

Table 5 shows historical and projected data for the ESA program. For FY 2015, ADE estimates that 1,315 students will receive \$17,300,000 in ESA funding. This would represent an increase of 554 students, which is the same increase assumed in Table 5 for FY 2016 (1,869 students assumed for FY 2016 minus 1,315 assumed for FY 2015 = 554 student increase).

A.R.S. § 15-2402C authorizes the department to retain for administration up to 5% of the funding designated for each student’s ESA account, of which it is required to transfer one-fifth to the State Treasurer for related administration at the State Treasurer’s office. The Baseline would continue to appropriate \$200,100 to ADE from the Department of Education Empowerment Scholarship Account Fund (A.R.S. § 15-2402D) in FY 2015 for program administration (*see agency Operating Budget narrative above*). The Baseline likewise would continue to appropriate \$40,000 from the State Treasurer Empowerment Scholarship Account Fund in FY 2015 for ESA program administration (*see related narrative in State Treasurer Budget pages*).

**K-3 Reading**

The Baseline includes \$40,007,700 and 2 FTE Positions from the General Fund in FY 2016 for the K-3 Reading program. These amounts are unchanged from FY 2015.

The program is authorized by A.R.S. § 15-211, which requires the State Board of Education, in collaboration with the department, to establish a program to improve the reading proficiency of pupils in Grades K-3. Program funding is generated by the K-3 Reading “Group B” weight established in A.R.S. § 15-943. The budget continues a General Appropriation Act footnote stipulating that the State Board of Education may use up to \$1,500,000 of the appropriated amount on technical assistance and state level program administration. The department used \$1,012,800 for those purposes in FY 2014.

**School Year 2013-2014 School District Charter School Conversions**

The Baseline includes no funding in FY 2016 for School Year 2013-2014 School District Charter School Conversions. FY 2016 adjustments would be as follows:

**Remove One-Time Funding GF (24,500,000)**

The Baseline includes a decrease of \$(24,500,000) from the General Fund in FY 2016 for the elimination of one-time funding for School Year 2013-2014 School District Charter School Conversions. This funding was one-time in nature, as Section 22 of the FY 2015 K-12 Education BRB (Laws 2014, Chapter 17) stipulated that new charter conversions from FY 2014 could continue to operate as charter schools only through FY 2015.

Starting in FY 2016, only school districts that operated charter schools prior to FY 2014 can continue to operate them. Laws 2014, Chapter 214, however, caps their charter school ADM at 120% of their FY 2013 charter school ADM (approximately 2,800 ADM statewide).

(*See the School Year 2013-2014 School District Charter School Conversions policy issue under Basic State Aid in the FY 2015 Appropriations Report for additional information.*)

**Student Success Funding**

The Baseline includes \$21,500,000 from the Student Success Fund in FY 2016 for Student Success Funding (SSF). This amount is unchanged from FY 2015.

Funding for the program is appropriated from the Student Success Fund established by A.R.S. § 15-917. The Baseline would continue to deposit \$22,400,000 from the General Fund into the Student Success Fund. Of that amount, \$21,500,000 would be appropriated from the Student Success Fund to this line item for incentive payments. (*See Student Success Fund Deposit line item narrative below for more information.*)

The Baseline would continue session language from Laws 2014, Chapter 17 (the K-12 Education BRB for FY 2015) that required the department to distribute SSF funding to public schools in FY 2015 based on a formula linked to achievement profiles and improvement categories defined in the bill. Under that formula, a student who “exceeds proficiency” and exhibits “superior improvement,” for example, generates \$24.50 in SSF for their school district or charter school. The estimated cost of the SSF formula for FY 2016 is \$21,500,000, which would be unchanged from the estimated cost for FY 2015.

**Additional State Aid - Homeowner’s Rebate**

The Baseline includes \$362,803,700 from the General Fund in FY 2016 for the Additional State Aid (ASA) - Homeowner’s Rebate line item. FY 2016 adjustments would be as follows:

**New Homes GF 4,494,500**

The Baseline includes an increase of \$4,494,500 from the General Fund in FY 2016 for increased Homeowner’s Rebate costs associated with new home construction. The \$4,494,500 estimate assumes that Class 3 properties (owner occupied homes) will account for about one-fourth of statewide property tax growth from new construction in FY 2016 and that 43.559% of the QTR taxes owed by new homes will be paid by the state through the Homeowner’s Rebate.

**Property Taxes - Statutory Changes GF 4,400,000**

The Baseline includes an increase of \$4,400,000 from the General Fund in FY 2016 to offset an anticipated increase in Homeowner Rebate costs for FY 2016 due to tax law changes pertaining to commercial property. Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1 phases down the assessment ratio on commercial property from 20% to 18% over 4

years beginning in FY 2014, which will reduce statewide property values for commercial property in FY 2016. This will cause the statewide property tax base to be smaller in FY 2016 than it otherwise would be and Truth in Taxation will require the K-12 QTR to be increased accordingly. The latter change will increase the amount of QTR taxes paid by homeowners, which will increase Homeowner's Rebate costs by an estimated \$4,400,000 in FY 2016.

In addition, Chapter 1 increases the rebate percentage for the Homeowner's Rebate in order to also hold homeowners harmless for non-QTR rate increases that otherwise would occur under Chapter 1 to compensate for the lower commercial property assessed value. These rates may affect K-12 non-QTR taxes for school bonds and overrides. In addition, non-school tax rates, such as for cities, counties and community colleges, may also increase. That change is described separately below.

**Increased Rebate Percentage GF 21,600,000**

The Baseline includes an increase of \$21,600,000 from the General Fund in FY 2016 for costs associated with an increased Homeowner's Rebate percentage required by Laws 2011, 2<sup>nd</sup> Special Session, Chapter 1. Chapter 1 requires DOR to adjust the Homeowner's Rebate percentages for FY 2014 through FY 2017 in order to offset homeowner tax rate increases that otherwise would occur in those years under Chapter 1 due to reduced assessment ratios for commercial property. For FY 2015, DOR increased the rebate percentage to 43.559% versus 41.825% in FY 2014. The currently estimated cost of the required rebate percentage increase for FY 2016 is \$21,600,000, which would reflect a rebate percentage of roughly 46%. DOR is not expected to determine the actual rebate percentage for FY 2016 until the summer of 2015.

**Display 1% Cap Separately GF (20,192,800)**

The Baseline includes a decrease of \$(20,192,800) from the General Fund in FY 2016 to display costs of the 1% cap in a separate line item for greater transparency starting in FY 2016. An offsetting \$20,192,800 increase from the General Fund would be displayed in that new line item starting in FY 2016, resulting in no net funding change for the Additional State Aid program as a whole (Homeowner's Rebate and 1% cap combined) relative to what it would have been under the prior format.

*Background* – The Additional State Aid program authorized by A.R.S. § 15-972 primarily pays a portion of each homeowner's school district primary property taxes, up to a maximum of \$600 per parcel.

**Additional State Aid - 1% Cap**

The Baseline includes \$27,600,000 from the General Fund in FY 2016 for the Additional State Aid - 1% Cap line item. FY 2016 adjustments would be as follows:

**Base Adjustment GF 7,407,200**

The Baseline includes an increase of \$7,407,200 from the General Fund in FY 2016 to align the program's base budget with actual reported costs for FY 2015. The Arizona Department of Revenue (DOR) reported in October 2014 that the overall program would cost \$359,909,200 for FY 2015, which is \$7,407,200 more than its FY 2015 appropriation. The difference is primarily due to higher than expected costs for the "1% cap" portion of the Additional State Aid formula. (*Please see Background paragraph below under "Additional State Aid - 1% cap" narrative for more information.*)

**Display 1% Cap Separately GF 20,192,800**

The Baseline includes an increase of \$20,192,800 from the General Fund in FY 2016 to display costs of the 1% cap in a separate line item for greater transparency starting in FY 2016, as noted above.

*Background* – The Additional State Aid program also pays for any portion of a homeowner's primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home. This second feature is referred to as the "1% cap" and pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary property taxes at no more than 1% of a home's full cash value and was added to the State Constitution in 1980. It applies any time a homeowner's net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner's Rebate is applied.

In practice, the 1% cap has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates in order to keep their combined primary rate below \$10 per \$100 of NAV. The related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap. As a result, other funding mechanisms, such as capping the amount of state backfill, potentially could be explored as alternatives for reducing state 1% cap costs.

In FY 2014, the 1% cap accounted for an estimated \$10.9 million (3.3%) of the \$329.1 million in total Additional State Aid costs based on formula modeling. The remaining \$318.2 million (96.7%) was used to fund the Homeowner's Rebate.

For FY 2015, 1% cap costs are expected to grow by about \$16.7 million to approximately \$27.6 million of the estimated \$359.9 million total cost of Additional State Aid for the year. The large increase in 1% cap costs for FY 2015 is attributable mostly to a \$1.43 increase in the combined primary property tax rate for property owners in the Tucson Unified School District (TUSD) (from \$11.98



in FY 2014 to \$13.41 in FY 2015). The impact of the \$1.43 increase on homeowners is passed on to the state because the combined primary property tax rate for property located within TUSD already exceeded the 1% cap in FY 2014. Other classes of property, such as commercial property and rentals, however, must pay the \$1.43 increase on their own, since the 1% cap does not apply to them.

**Special Education Fund**

The Baseline includes \$32,242,100 and 1 FTE Position from the General Fund in FY 2016 for the Special Education Fund Special Line Item. FY 2016 adjustments would be as follows:

**Enrollment Reduction                      GF      (1,000,000)**

The Baseline includes a decrease of \$(1,000,000) from the General Fund in FY 2016 to reflect declining enrollment in residential programs at the Arizona State Schools for the Deaf and the Blind. (See *Arizona State Schools for the Deaf and the Blind* narrative for more information.)

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

**Other State Aid to Districts**

The Baseline includes \$983,900 from the General Fund in FY 2016 for Other State Aid to Districts. This amount is unchanged from FY 2015.

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.

**Non-Formula Programs**

**Accountability and Achievement Testing**

The Baseline includes \$18,223,600 and 2 FTE Positions in FY 2016 for Accountability and Achievement Testing. These amounts consist of:

General Fund	11,223,600
Proposition 301 Fund	7,000,000

These amounts are unchanged from FY 2015.

New “Arizona College and Career Ready” tests will be administered to Arizona public school students for the first time during the spring of 2015. The State Board of Education awarded the contract for the new test in November 2014 and it will cost an estimated \$19,000,000 for FY 2015 and \$18,500,000 for FY 2016. Actual costs will depend on the proportion of students taking computer versus paper and pencil tests, which is not yet known. The \$19,000,000 estimate cited above for FY 2015 assumes that 50% of students will take the less expensive computer based version during first year testing.

The Achievement Testing program, however, includes more than just AzMERIT testing. In FY 2015 and FY 2016 it also will include AIMS retests for high school students who still need to pass AIMS in order to graduate (required through the Class of 2016), continuing AIMS Science Tests, alternative exams for special needs students, and program administration. All of these functions and AzMERIT testing combined are expected to cost approximately \$27,500,000 in FY 2015 (see *Table 6*).

<b>Estimated Costs</b>	
AzMERIT	\$19.0 <sup>1/</sup>
AIMS Retests and Science Testing	4.5
Alternative Special Needs Exam	1.8
Staff and Administration	2.2
<b>Total</b>	<b>\$27.5</b>
<b>Estimated Available Funding</b>	
General Fund	\$11.2
Proposition 301 - School Accountability	7.0
Federal Funds	8.2
<b>Total</b>	<b>\$26.4 <sup>2/</sup></b>
<sup>1/</sup> Assumes that 50% of students will take computer-based test and 50% will take paper and pencil test. Actual cost will depend on percentages observed when tests are administered.	
<sup>2/</sup> ADE anticipates that carry-forward Proposition 301 monies from prior years will be available in FY 2015 to fund any difference between actual testing costs and other available funding.	

Roughly \$26,400,000 will be available to fund achievement testing costs in FY 2015, not including prior year carry-forward monies available from Proposition 301 (see *Table 6*). These estimates will be refined as additional information on AzMERIT testing costs and federal funding become known.

The Baseline would continue an existing General Appropriation Act footnote that requires JLBC review of any changes to the Achievement Testing program that will increase program costs.

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

allowable appropriation for School Accountability in A.R.S. § 42-5029E7.

(See *Other Issues for Legislative Consideration for more information.*)

### **Adult Education**

The Baseline includes \$4,500,000 and 2 FTE Positions from the General Fund in FY 2016 for Adult Education. These amounts are unchanged from FY 2015.

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 2015, a total of 25 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also is receiving approximately \$11,300,000 in federal funding in FY 2015. Its federal monies are subject to non-supplanting and maintenance of effort requirements stipulated in federal law.

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

The Baseline includes \$4,960,400 from the General Fund in FY 2016 for the Arizona Structured English Immersion Fund. This amount is unchanged from FY 2015.

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 \$5,705,100 to public schools from the fund in FY 2014. It also transferred \$7,858,400 in accumulated fund balances to the state General Fund during FY 2014, as required by Laws 2013, 1<sup>st</sup> Special Session, Chapter 3 (the K-12 Education BRB for FY 2014).

### **English Learner Administration**

The Baseline includes \$6,516,800 and 17 FTE Positions from the General Fund in FY 2016 for English Learner Programs. These amounts are unchanged from FY 2015.

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 125,500 students are expected to take the AzELLA in FY 2015, including 47,000 for initial testing and 78,000 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 the case. Plaintiffs in the case appealed the federal judge’s ruling in April 2013. The timeline for appellate action in the case is unknown. (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.

### **Information Technology Certifications**

The Baseline includes \$1,000,000 from the General Fund in FY 2016 for Information Technology Certifications. This amount is unchanged from FY 2015.

The program is intended to prepare students for industry-recognized information technology certification exams and provide for bulk purchasing of those exams.

### **JTED Performance Pay**

The Baseline includes no funding in FY 2016 for JTED Performance Pay. FY 2016 adjustments would be as follows:

#### **Remove One-Time Funding GF (500,000)**

The Baseline includes a decrease of \$(500,000) from the General Fund in FY 2016 for the elimination of one-time funding. A General Appropriation Act footnote required the department to distribute the appropriated FY 2015 amount on a pro rata basis based on the actual costs incurred to secure industry credential assessments and examinations for JTED students.

### **School Safety Program**

The Baseline includes \$3,646,500 and 1 FTE Position from the General Fund in FY 2016 for the School Safety program. These amounts are unchanged from FY 2015.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and

has existed in Arizona since FY 1995. (See the FY 2015 Appropriations Report for program history.)

The FY 2015 K-12 Education BRB requires that \$100,000 of the \$3,646,400 appropriation be used for a pilot program on school emergency readiness. The Baseline would continue this BRB provision.

The FY 2014 K-12 Education BRB required the department to submit a report that summarizes the results of the FY 2014 program by November 1, 2014. That report indicated that the 3 school districts that participated in the pilot program in FY 2014 (Continental Elementary, Osborn Elementary and Prescott Unified) all accomplished the following: 1) improved emergency management functions and aspects of school emergency response plans, 2) enhanced coordination and collaboration of internal district emergency planning team with community response partners, 3) trained staff on emergency operations plan supported by exercises and drills, and 4) worked with local law enforcement agencies to implement related software.

All available state General Fund and Proposition 301 funding for the program is allocated annually by the School Safety Program Oversight Committee pursuant to A.R.S. § 15-153C. Monies are awarded on a competitive grant basis on a 3-year cycle. FY 2015 is the first year of the current cycle.

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

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

The Baseline includes \$11,576,300 and 27 FTE Positions from the General Fund in FY 2016 for the State Block Grant for Vocational Education. These amounts are unchanged from FY 2015.

The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. CTE programs also currently receive approximately \$24,000,000 in federal funding annually pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006. Those monies are subject to a federal 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.

#### **Student Success Fund Deposit**

The Baseline includes \$22,400,000 from the General Fund in FY 2016 for the Student Success Fund Deposit Line Item. This amount is unchanged from FY 2015.

Monies in the line item are used in order to fund the Student Success Funding program. (See Student Success Funding line item narrative above for more information.)

#### **Teacher Certification**

The Baseline includes \$1,842,500 and 22 FTE Positions from the Teacher Certification Fund in FY 2016 for Teacher Certification. These amounts are unchanged from FY 2015.

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.

#### **Technology-Based Language Development and Literacy Intervention Pilot Program**

The Baseline includes \$246,800 from the Technology-Based Language Development and Literacy Intervention Fund in FY 2016 for the Technology-Based Language Development and Literacy Intervention Pilot Program. FY 2016 adjustments would be as follows:

##### **Base Adjustment OF (\$53,200)**

The Baseline includes a decrease of \$(53,200) from the Technology-Based Language Development and Literacy Intervention Fund in FY 2016 in order to align the program's budget with available resources.

Laws 2014, Chapter 17 (the K-12 Education BRB for FY 2015) established a 2-year pilot program on Technology-Based Language Development and Literacy Intervention to be funded through a new Technology-Based Language Development and Literacy Intervention Fund authorized by A.R.S. § 15-217H. Chapter 17 required the Commission for Postsecondary Education to transfer \$546,800 from the Commission for Postsecondary Education IGA/ISA Fund into the new fund by August 1, 2014 in order to help fund the pilot program. The \$546,800 amount consisted of unused funding from the now-eliminated Early Graduation Scholarship Program (formerly established by A.R.S. § 15-105).

As originally passed, Chapter 17 also required the Department of Education to transfer \$53,200 in state General Fund funding from its Accountability and Achievement Testing program to the Technology-Based Language Development and Literacy Intervention Fund by August 1, 2014, which would have provided \$600,000 in total funding for the 2-year pilot. The Governor, however, vetoed the latter provision. As a result, the program has \$(53,200) less in funding available for its second year (FY 2016) than the \$300,000 amount appropriated and available to it in FY 2015. The Baseline would reduce the program's FY 2016 budget accordingly. Program funding

for FY 2016 will not appear in the General Appropriation Act, since it has already been appropriated by Chapter 17.

The program seeks to promote English language development and literacy for public school pupils in Grades K-6. Chapter 17 requires the department to develop application procedures and selection criteria for school districts and charter schools that voluntarily decide to participate in the pilot program.

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**State Board of Education**

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**State Board of Education**

The Baseline includes \$1,614,600 and 9 FTE Positions in FY 2016 for the State Board of Education. These amounts consist of:

General Fund	1,234,800
Teacher Certification Fund	379,800

These amounts are unchanged from FY 2015.

The 11-member State Board of Education establishes programs, initiates policies and enforces laws and regulations relating to schools and the educational development of the individual child as provided in A.R.S. § 15-203. The board members other than the Superintendent of Public Instruction are appointed by the Governor for 4-year terms.

The State Board of Education has jurisdiction over programs such as Adult Education (A.R.S. § 15-232) and the School Safety Program (A.R.S. § 15-154). (See narrative above for additional information on these 2 programs.)

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**FORMAT** — Operating Lump Sum with Special Line Items by Agency

**FOOTNOTES**

*Standard Footnotes*

Operating Budget

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.

Basic State Aid

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 \$47,359,500 in expendable income derived from the

Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2016.

Receipts derived from the Permanent State School Fund and any other nonstate General Fund revenue source that is dedicated to fund Basic State Aid must be expended, whenever possible, before expenditure of state General Fund monies.

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, the income from the investment of permanent 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 shall not be made except as specifically authorized above.

K-3 Reading Weight

The appropriated amount is for funding costs of the K-3 reading weight established in A.R.S. § 15-943, except that the State Board of Education may use up to \$1,500,000 of the appropriated amount on technical assistance and state level administration of the K-3 Reading program. The appropriated amount includes 2 FTE Positions.

Achievement Testing

Before making any changes to the Achievement Testing program that will increase program costs, the State Board of Education shall submit the estimated fiscal impact of those changes to the Joint Legislative Budget Committee for review.

English Learner Administration

The Department of Education must 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.

Student Success Fund Deposit

The \$22,400,000 appropriation from the General Fund for the Student Success Fund Deposit Special Line Item is a continuing appropriation and is exempt from the

provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

#### State Board of Education

The State Board of Education may establish its own strategic plan separate from that of the Department of Education and based on its own separate mission, goals and performance measures.

#### Other

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 must 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.

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.

For FY 2016, the State Board of Education, in collaboration with the Department of Education and the Department of Administration, shall report quarterly on or before the last day of each calendar quarter on its progress in implementing the Education Learning and Accountability System 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.

#### Deletion of Prior Year Footnotes

The Baseline would delete the footnote concerning the allocation of one-time charter conversion monies, as that footnote was one-time in nature.

The Baseline would delete the footnote concerning the allocation of one-time JTED Performance Pay monies, as those monies were one-time in nature.

### **STATUTORY CHANGES**

The Baseline would make the following statutory changes:

#### Inflation

- As permanent law, increase the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the Charter Additional Assistance amounts (A.R.S. § 15-185B4) by 1.59% for inflation.

#### Additional Assistance

- As session law, continue to reduce state aid for District Additional Assistance by \$238,985,500 and reduce budget limits accordingly.
- As session law, continue to reduce District Additional Assistance funding to school districts that do not receive state aid in FY 2016 by the amount that would be reduced if they did qualify for state aid for FY 2016 and reduce budget limits accordingly.
- As session law, continue to reduce Charter Additional Assistance by \$15,656,000.
- As session law, continue to reduce Charter Additional Assistance funding to school districts with charter schools that do not receive state aid in FY 2016 by the amount that would be reduced under the continuing \$15,656,000 statewide Charter Additional Assistance suspension if they did qualify for state aid for FY 2016 and reduce budget limits accordingly.
- As session law, continue to cap total District Additional Assistance reductions for school districts with fewer than 1,100 students at \$5,000,000.

#### Joint Technical Education Districts (JTEDs)

- As session law, continue to fund state aid for Joint Technological Education Districts (JTEDs) in FY 2015 at 95.5% of the formula requirement for JTEDs with more than 2,000 students and reduce budget limits accordingly. Would continue to fund smaller JTEDs at 100%.

#### Education Learning and Accountability System (ELAS)

- As session law, continue to require community colleges and universities to transfer \$6 per pupil by December 1, 2015 for deposit into the Education Learning and Accountability Fund, but have them transfer the monies to the Arizona Department of Administration Automation Projects Fund instead of ADE in order to avoid double counting by ADE (*see Education Learning and Accountability narrative under Other Issues for Legislative Consideration for more information*).

#### Student Success

- As session law, continue for FY 2016 the distribution formula for the Student Success Funding program that was in effect for FY 2015.

#### School Safety

- As session law, continue to stipulate that \$100,000 of the \$3,646,500 School Safety Program appropriation for FY 2016 is to be used for a pilot program on school emergency readiness and establish requirements for the pilot program.

#### Rollover

- As session law in the General Appropriation Act, continue to defer \$930,727,700 in Basic State Aid payments for FY 2016 until FY 2017. Appropriate \$930,727,700 in FY 2017 for these deferred Basic State Aid payments. Continue to exempt school districts with less than 600 students from the K-12

rollover. Allow the State Board of Education to make the rollover payment no later than July 12, 2016.

- As session law in the General Appropriation Act, continue to require school districts to include in the FY 2016 revenue estimates that they use for computing their FY 2016 tax rates the rollover monies that they will receive for FY 2016 in July 2016.

#### *Deleted Provisions*

The Baseline would not continue the following session law provisions due to their one-time nature:

- As session law, provide for the phase out of school district charter school conversions.
- As session law, establish a K-12 Broadband Task Force.
- As session law, transfer \$546,800 into the new Technology-Based Language Development and Literacy Intervention Fund from the Commission on Postsecondary Education IGA/ISA Fund (leftover “Early Graduation Scholarship Program” monies).

### **OTHER ISSUES FOR LEGISLATIVE CONSIDERATION**

This section includes information on the following topics:

- FY 2015 Supplemental
- Long Term Budget Impacts
- Achievement Testing
- Education Learning and Accountability System
- Endowment Earnings
- Proposition 301
- JTED ADM from High School Graduates
- Budget Overrides
- Basic State Aid Formula Description

#### ***FY 2015 Supplemental***

The JLBC Staff currently estimates that the department will experience a \$26.9 million shortfall for FY 2015, which would include the following:

- A \$16.5 million shortfall for Basic State Aid due to higher-than-budgeted ADM growth in FY 2015.
- A \$7.4 million shortfall for Additional State Aid due to higher-than-budgeted costs for the 1% cap.
- A \$3.0 million shortfall due to a one-time property tax settlement.

The \$26.9 million overall shortfall estimate is subject to substantial revision as additional student count information becomes available.

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

Beyond FY 2016 Baseline changes, JLBC Staff estimates for ADE that statutory caseload changes will require an additional \$209.5 million in FY 2017 above FY 2016 and an additional \$163.6 million in FY 2018 above FY 2017. These estimates assume the following changes:

- 1.4% ADM growth for all fiscal years.
- 12,000 new charter ADM and 3,000 new special education weighted ADM annually.
- GDP inflators of 1.86% for FY 2017 and 1.79% for FY 2018.
- New construction NAV growth of 2.03% for FY 2017 and 1.99% for FY 2018.
- A \$44.6 million increase in Homeowner’s Rebate costs in FY 2017 only in order to hold homeowners harmless for tax rate changes associated with the final year of a 4-year phase down of the assessment ratio for Class 1 property. This cost remains in base budget for FY 2018, but does not further increase that year, since the assessment ratio phase down is completed after FY 2017.

These estimates do not include additional funding that could be required for settlement of the current Proposition 301 inflation lawsuit. (*See the 1.59% Inflation Adjustment narrative under Basic State Aid for additional information.*)

#### ***Achievement Testing***

The department will be implementing a new statewide achievement test in the spring of FY 2015. The new test will be aligned to new academic standards adopted by the State Board of Education in December 2010. There is no specific state statutory requirement regarding implementation of the new standards. The State Board of Education, however, adopted them in December 2010 under powers granted to it by A.R.S. § 15-203. In September 2013, the Governor issued an Executive Order requiring executive agencies to refer to these standards as “Arizona’s College and Career Ready Standards” (ACCR).

The ACCR standards list knowledge and skills that students are expected to learn each year in English language arts and Math in the 45 states that have adopted Common Core standards in some fashion. As a result, participating states will be able to use common exams and compare test performance of students across states. Prior to the adoption of ACCR standards, Arizona students were instead taught under state-specific academic standards and tested by Arizona Instrument to Measure Standards (AIMS) tests that were not comparable to tests used by other states.

Under AIMS, high school students could not graduate until they had passed AIMS Math, Reading and Writing tests that were administered separately from their high school math and English classes. Under ACCR, the math and English content required for high school graduation will instead be incorporated into “end of courses tests” (final exams) for high school math and English classes themselves.

Students therefore will be able to graduate under ACCR if they pass all required classes without having to also pass separate graduation tests. Non-high school students

generally will not have to pass annual ACCR exams in order to be promoted to the next grade, as is true under AIMS testing. Students in 3<sup>rd</sup> Grade, however, will still need to score at better than the “falls far below the 3<sup>rd</sup> Grade level” on ACCR English language tests in order to be promoted to 4<sup>th</sup> Grade under Arizona’s “Move on When Reading” law (A.R.S. § 15-701A2a).

High school students through the Class of 2016 will still need to pass the AIMS math, reading and writing tests in order to graduate. As a result, ADE continued to administer the existing AIMS tests through the spring of 2014 and will continue to make AIMS retests available through December 31, 2016 for students who do not pass all 3 AIMS subject tests during initial attempts. The Class of 2017 and beyond will instead be subject to the new ACCR assessments.

States will be responsible for costs of administering the tests, once developed. Those costs are expected to rise under the new exams because of the more complex nature of their questions and of their subsequent scoring requirements.

Arizona used a competitive bid process to select a vendor to provide the new test and the scoring. As a result of this process, the State Board of Education awarded a contract for the new tests in November 2014 to the American Institutes for Research (AIR). The estimated cost of the new contract is approximately \$19.0 million for FY 2015 and \$18.5 million for FY 2016. (See the Accountability and Achievement Testing line item narrative for more information.)

**Education Learning and Accountability System**

Laws 2011, Chapter 29 authorized development of the Education Learning and Accountability System (ELAS), in order to “collect, compile, maintain and report student level data for students attending public educational institutions that provide instruction to pupils in preschool programs, kindergarten programs, grades 1 through 12 and postsecondary educational programs in this state” (A.R.S. § 15-249A).

Beginning in FY 2015, ELAS funding is appropriated to the Arizona Department of Administration Automation Projects Fund rather than ADE. As a result, ELAS funding no longer appears in the ADE budget. (Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)

The Baseline would continue to require community college and universities to transfer \$6 per Full Time Student Equivalent (FTSE) to ADE by December 1 of the budget year for deposit into the ELAS Fund in order to continue to help fund ELAS. The Baseline, however, would require community colleges and universities to transfer the fees to ADOA for deposit into the ADOA Automation Projects Fund, rather than continuing to transfer them first to ADE (please see Statutory Changes section above). ADE

recommends this in order to avoid continued double counting, as ADE indicates that under current practice the state accounting system requires it to report the \$6 per FTSE fee revenue both when it is received from community colleges and universities and also when it is appropriated back to ADE from the ADOA Automation Projects Fund.

**Endowment Earnings**

In FY 2014, endowment earnings from state trust lands public schools funded approximately \$125.1 million of Basic State Aid, School Facilities Board bond debt service and K-12 Classroom Site Fund costs.

Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 in order to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools, with the rest being designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands.

The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates endowment earnings primarily by selling or leasing state trust lands and natural products from trust lands. The State Treasurer generates endowment earnings by investing monies received from the State Land Department from the sale of state trust lands and related natural products in stocks, bonds and other income-earning investments.

State trust land earnings are considered either “permanent” or “expendable” depending on whether they are one-time in nature. Only expendable monies are distributed to beneficiaries, as permanent monies are considered to be part of the original endowment and must be reinvested rather than distributed to beneficiaries. Permanent monies include one-time proceeds from the sale of state trust lands and natural products from state trust lands.

Expendable monies include ongoing income that the Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer. In FY 2014, public schools benefited from \$125.1 million of expendable land trust monies from the Land Department and State Treasurer combined. That total included \$57.3 million from the Land Department and \$67.8 million from the State Treasurer (see Table 7).

<u>Source</u>	<u>2006</u>	<u>2010</u>	<u>2014</u>
Land Department	58.7	38.1	57.3
Treasurer	31.4	0.0	67.8
<b>Total</b>	<b>90.1</b>	<b>38.1</b>	<b>125.1</b>

**Table 8**

**Proposition 301 Monies  
(FY 2014 Actual)  
(\$ in Millions)**

<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
School Facilities Board	\$56.2	For debt service on \$794.7 million of bonds authorized by Proposition 301 for school repairs and updates.
Universities	65.3	Receive 12% of monies remaining after SFB debt service is deducted.
Community Colleges	16.3	Receive 3% of monies after SFB debt service.
Tribal Colleges	0.7	Same formula as for community colleges.
Income Tax Credit	<u>25.0</u>	For income tax credit authorized by A.R.S. § 43.1072.01.
<b>Subtotal - Non ADE Programs</b>	<b>163.5</b>	
Additional School Days	86.3	To add 5 days to K-12 school year (180 days total).
School Safety	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>333.9</u>	Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
<b>Subtotal - ADE Programs</b>	<b>436.7</b>	
<b>Grand Total</b>	<b>\$600.2</b>	

Table 7 shows that K-12 endowment earnings increased from \$90.1 million in FY 2006 to \$125.1 million in FY 2014 after dropping temporarily to \$38.1 million during the Great Recession.

For FY 2015, the Treasurer distribution of K-12 endowment earnings will be \$76.0 million, which is a known number because it is based on land trust market values through calendar year 2013 only (prior 5 calendar years). The Land Department did not provide an estimate of the amount of expendable K-12 land trust earnings that it will generate for FY 2015.

Of the \$125.1 million in K-12 expendable earnings generated for FY 2014, \$25.8 million was used to help fund School Facilities Board debt service pursuant to A.R.S. § 37-521B2 and \$46.5 million was used to help fund Basic State Aid pursuant to A.R.S. § 37-521B3. The remaining \$52.8 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.

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. Currently, the State Constitution requires 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 was enacted into law by Proposition 118 in November 2012 and will be in effect through calendar year 2021. It is intended to reflect the long-term average

for investment returns on invested land trust monies, while eliminating large fluctuations in expendable earning distributions to beneficiaries that occurred in prior years due to market volatility.

After calendar year 2021, the distribution formula in effect prior to Proposition 118 would resume under current law. That formula computed expendable Treasurer land trust earnings based on inflation adjusted rates of investment return observed for invested land trust proceeds over the preceding 5 calendar years. Those rates of return fluctuated substantially from year to year in the past depending on market conditions (*see Treasurer's earnings in Table 7*).

The total market value of state land trust monies currently invested by the State Treasurer for all beneficiaries combined (not just public schools) recently surpassed \$5.0 billion for the first time (up from \$1.2 billion in FY 2004, for example), due largely to strong stock market performance in recent years. This will increase the amount of expendable land trust earnings distributed by the State Treasurer in the future, since it will cause the flat 2.5% annual distribution factor from Proposition 118 to apply to a larger 5-year average value for invested land trust monies.

**Proposition 301**

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 in order to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on most purchases from 5% to 5.6% through FY 2021 in order to generate more funding for public education. It also amended A.R.S. § 42-5029 in order to prescribe how the new sales tax revenues would be allocated (*see Table 8*).



As shown in *Table 8*, Proposition 301 revenues are earmarked for the following items:

- Debt service on \$794.7 million of School Facilities Board bonds used for deficiencies correction.
- Universities (12% of the remainder after SFB debt service).
- Community colleges (3% of the remainder).
- Tribal Colleges (same formula as community colleges).
- Income tax credit for sales tax paid by low income households (to offset the additional 0.6¢ sales tax rate).
- Additional School Days.
- School Safety and Character Education.
- School Accountability.
- Failing Schools.
- Classroom Site Fund (A.R.S. § 15-977).

Proposition 301 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies remaining after all other distributions are made. Its share equaled \$333.9 million (55.6%) of the \$600.2 million collected for FY 2014 (*see Table 8*).

The Proposition 301 sales tax expires after FY 2021. The JLBC Staff recommends that the Legislature begin a planning process to accommodate this expiration.

#### Classroom Site Fund

Proposition 301 also dedicated to the Classroom Site Fund all growth in K-12 expendable land trust earnings above the amount generated by the State Treasurer and State Land Department combined for FY 2001 (the last year before Proposition 301 took effect), which equaled \$72.3 million. In FY 2014, the Classroom Site Fund received approximately \$52.8 million from K-12 endowment earnings, which resulted in total deposits of \$386.7 million (\$333.9 million from the 0.6¢ sales tax + \$52.8 million from endowment earnings = \$386.7 million).

The \$333.9 million that the Classroom Site Fund received from the 0.6¢ sales tax in FY 2014 does not include approximately \$102.8 million in school-related costs also funded by Proposition 301 for items such as Additional School Days that appear in *Table 7*. Those 2 amounts combined equaled \$436.7 million for FY 2014.

ADE distributed \$310 per pupil from the Classroom Site Fund in FY 2014. 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.

#### ***JTED ADM from High School Graduates***

A student's eligibility for Basic State Aid funding typically ends when they graduate from high school. ADE reports, however, that approximately 900 students who graduated from high school in FY 2013 or earlier currently are included in student counts reported by JTEDs for FY 2015. ADE does not think it has authority to exclude them under current law. The 900 students represent roughly 600 ADM under preliminary data and are costing the state an estimated \$2.8 million (600 ADM X \$4,700 per pupil [rough JTED average] = \$2,820,000).

#### ***Budget Overrides***

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

M&O and Special Program overrides together are capped at 15% of a district's Revenue Control Limit (RCL). ("RCL" essentially equals a district's total funding under the Basic State Aid formula minus its District Additional Assistance funding, pursuant to A.R.S. § 15-947.) District Additional Assistance overrides are capped at 10% of a district's RCL.

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

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

For FY 2015, 94 districts statewide have M&O overrides pursuant to A.R.S. § 15-481, 9 have "Special Program" overrides pursuant to A.R.S. § 15-482, and 23 have District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2015 include \$387.3 million for M&O overrides, \$6.9 million for Special Program overrides and \$74.2 million for District Additional Assistance overrides. Grand total override funding for FY 2015 therefore equals \$468.4 million, which is \$25.5 million above the \$442.9 million amount budgeted for all overrides collectively in FY 2014 (*see Table 9*). (*See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.*)

<b>Type of Override</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>Change</b>
M&O	364.7	387.3	22.6
Special Program	19.0	6.9	(12.1)
Additional Assistance	59.2	74.2	15.0
<b>Total</b>	<b>442.9</b>	<b>468.4</b>	<b>25.5</b>

A.R.S. § 15-249.04 requires ADE to report by November 30 of each year the amount budgeted for school district budget overrides by district and type of override for the current fiscal year. The data cited in *Table 9* are from the related ADE reports for FY 2014 and FY 2015.

**Basic State Aid Formula Description**

Basic State Aid funding is based on a statutory formula enacted in 1980 and substantially modified in 1985. This formula “equalizes” formula funding among school districts, enabling them all to spend approximately the same amount of formula money per pupil from state and local sources combined. (Non-formula funding, such as from bonds and overrides, is not equalized.) Districts with a very strong local property tax base are able to generate their entire formula funding entitlement from local property taxes alone. Most school districts, however, require “Basic State Aid” monies in order to receive full formula funding.

The equalization formula for school districts consists of 3 components: the Base Support Level (BSL), Transportation Support Level (TSL), and District Additional Assistance (DAA). BSL and DAA funding are computed by multiplying specific dollar amounts in statute by a school district's student count, adjusted for various weights. The TSL instead is computed by multiplying specific dollar amounts per route mile in statute by a district’s pupil transportation route miles. The sum of the 3 formula components equals what is referred to as a school district's “equalization base,” which is its total

funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, its net assessed property value (NAV) is multiplied by the statutory “Qualifying Tax Rate” (QTR) (A.R.S. § 15-971B) in order to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount, plus the district’s share of State Equalization Tax Rate (SETR) revenues (A.R.S. § 15-994), if any, are then subtracted from its equalization base. If the district’s combined QTR and SETR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its “local share” funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district’s formula funding entitlement), or higher if the district is allowed to budget for items outside of its “Revenue Control Limit” (RCL) pursuant to A.R.S. § 15-910.

Basic State Aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a “charter,” and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools does not include DAA or separate transportation funding and instead consists only of BSL and 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 2015 (as modified by the FY 2015 K-12 Education BRB) equal \$1,707.77 per pupil for Grades K-8 and \$1,990.38 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.

<b>SUMMARY OF FUNDS</b>	<b>FY 2014 Actual</b>	<b>FY 2015 Estimate</b>
<b>Agricultural Youth Organization Special Plate Fund (EDA2650/A.R.S. § 15-791)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> A deposit of \$17 of each \$25 original and annual renewal Arizona agricultural youth organization special plate fee, and interest earnings. The remaining \$8 is deposited to the State Highway Fund for special plate administration.		
<b>Purpose of Fund:</b> To issue Arizona agricultural youth organization special plates. ADOT is to annually deposit these monies, excluding administrative fees, into the Arizona Agricultural Youth Organization Special Plate Fund for disbursement by the State Board of Education acting as the State Board for Vocational and Technological Education.		
<b>Funds Expended</b>	64,500	65,400
<b>Year-End Fund Balance</b>	0	2,600

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
<b>Assistance for Education Fund (EDA2420/A.R.S. § 15-973.01)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> State income tax refunds that are donated to the fund via a check-off box on state income tax forms pursuant to A.R.S. § 43-617.		
<b>Purpose of Fund:</b> To fund solutions teams assigned to schools pursuant to A.R.S. § 15-241.		
<b>Funds Expended</b>	319,400	225,300
<b>Year-End Fund Balance</b>	298,000	151,000
<b>Character Education Special Plate Fund (EDA2522/A.R.S. § 15-719)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> \$17 of the \$25 fee for Character Education license plates.		
<b>Purpose of Fund:</b> To fund character education programs in schools. Not more than 10% of monies deposited in the fund annually shall be used for the cost of administering the fund.		
<b>Funds Expended</b>	25,500	45,500
<b>Year-End Fund Balance</b>	27,200	25,200
<b>Classroom Site Fund (EDA2471/A.R.S. § 15-977)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> A portion of the Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E10, and Permanent State School Fund expendable earnings that exceed the FY 2001 level, pursuant to A.R.S. § 37-521B4.		
<b>Purpose of Fund:</b> To provide additional funding for teacher compensation increases based on performance (40%); teacher base salary increases (20%); and class size reduction, AIMS intervention programs, teacher development, dropout prevention and teacher liability insurance premiums (40%).		
<b>Funds Expended</b>	404,353,700	391,045,500
<b>Year-End Fund Balance</b>	20,313,600	20,313,600
<b>Department of Education Empowerment Scholarship Account Fund (EDA2570/A.R.S. § 15-2402)</b>		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred from Basic State Aid pursuant to A.R.S. § 15-2402C and prior year carry forward monies.		
<b>Purpose of Fund:</b> To fund ADE's costs of administering the Empowerment Scholarships Accounts program authorized by A.R.S. § 15-2402. ADE also transfers Basic State Aid monies to the State Treasurer each quarter to fund Empowerment Scholarship Accounts for individual students (the total FY 2014 scholarships account transfer was approximately \$10.2 million). The student account monies are not displayed to avoid double counting of the General Fund. Non-appropriated monies in the fund are prior year carry forward. (See also the "State Treasurer Empowerment Scholarship Account Fund" in the Summary of Funds for the State Treasurer).		
<b>Appropriated Funds Expended</b>	200,000	200,100
<b>Non-Appropriated Funds Expended</b>	36,800	58,500
<b>Year-End Fund Balance</b>	346,900	288,300
<b>Department of Education Professional Development Revolving Fund (EDA2580/A.R.S. § 15-237.01)</b>		<b>Appropriated</b>
<b>Source of Revenue:</b> Tuition paid for professional development, pursuant to A.R.S. § 15-237.01.		
<b>Purpose of Fund:</b> To offset the cost of providing professional development.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	0	0
<b>Education Commodity Fund (EDA4210/A.R.S. § 15-1152)</b>		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Fees from school districts participating in the federal Food Commodities Program.		
<b>Purpose of Fund:</b> To pay for costs of administering the federal Food Commodities Program.		
<b>Funds Expended</b>	56,100	22,100
<b>Year-End Fund Balance</b>	42,300	31,200

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
<b>Education Donations Fund</b> (EDA2025/A.R.S. § 35-142)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Grants received by the department from foundations or other private sector donors.		
<b>Purpose of Fund:</b> To help pay for conferences, programs or other activities that are sponsored by donor organizations.		
<b>Funds Expended</b>	175,600	48,100
<b>Year-End Fund Balance</b>	169,500	191,400
<b>Education Learning and Accountability Fund</b> (EDA2552/A.R.S. § 15-249.02)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred from the Arizona Department of Administration (ADOA) Automation Projects Fund (APF), which for FY 2015 received \$10,400,000 from the State General Fund, an estimated \$1,600,000 from a \$6 per Full-Time Student Equivalent (FTSE) fee paid by from Arizona public universities and community colleges pursuant to Laws 2014, Chapter 17, Section 11, plus any remaining FY 2014 balances in the fund. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Purpose of Fund:</b> To develop and implement the Education Learning and Accountability System (ELAS) pursuant to A.R.S. § 15-249.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	440,600	0
<b>Failing Schools Tutoring Fund</b> (EDA2470/A.R.S. § 15-241)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> A portion of the 0.6% Proposition 301 sales tax, pursuant to A.R.S. § 42-5029E8 .		
<b>Purpose of Fund:</b> To fund tutoring for students who have not yet passed portions of the high school AIMS test or who attend "failing" schools, pursuant to A.R.S. § 15-241R, and to purchase materials designed to help students meet the Arizona Academic Standards and pass the AIMS test, pursuant to A.R.S. § 15-241CC.		
<b>Funds Expended</b>	1,517,300	1,581,100
<b>Year-End Fund Balance</b>	199,300	118,200
<b>Federal Funds</b> (EDA2000/A.R.S. § 35-142)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
<b>Purpose of Fund:</b> To be expended as stipulated by federal statutes that authorize the Federal grants.		
<b>Funds Expended</b>	1,056,141,700	1,074,395,400
<b>Year-End Fund Balance</b>	2,867,600	2,763,000
<b>Federal Grants - American Recovery and Reinvestment Act (ARRA)</b> (EDA2999/A.R.S. § 35-142)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> One-time Federal Funds allocated by the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).		
<b>Purpose of Fund:</b> One-time Federal Funds to be used by the department to offset state reductions and enhance funding for programs such as Special Education and Title I.		
<b>Funds Expended</b>	19,023,300	8,000,000
<b>Year-End Fund Balance</b>	500	500
<b>Golden Rule Special Plate Fund</b> (EDA2366/A.R.S. § 15-243)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> \$17 of the \$25 fee for Golden Rule license plates.		
<b>Purpose of Fund:</b> To fund programs that demonstrate the promotion of the golden rule in schools and communities.		
<b>Funds Expended</b>	192,500	191,000
<b>Year-End Fund Balance</b>	0	0
<b>IGA and ISA Fund</b> (EDA2500/A.R.S. § 35-142E)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Monies transferred into the fund from Federal Funds (EDA2000) and the Internal Services Fund (EDA4209).		
<b>Purpose of Fund:</b> Clearing account for monies expended under Intergovernmental Agreements (IGA's) and Intergovernmental Service Agreements (ISA's).		
<b>Funds Expended</b>	4,802,500	4,922,800
<b>Year-End Fund Balance</b>	298,600	154,200

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
<b>Indirect Cost Recovery Fund</b> (EDA9000/A.R.S. § 35-142)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal grants for programs such as Title I, Child Nutrition Assistance, Special Education and Vocational Education.		
<b>Purpose of Fund:</b> To fund overhead and other indirect costs associated with state level administration of federal programs.		
<b>Funds Expended</b>	4,767,100	5,678,300
<b>Year-End Fund Balance</b>	1,803,100	1,038,300
<b>Instructional Improvement Fund</b> (EDA2492/A.R.S. § 15-979)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Shared revenue from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. The Instructional Improvement Fund receives 56% of total shared revenue from Proposition 202. This is distributed among school districts, charter schools and ASDB based on student counts.		
<b>Purpose of Fund:</b> To provide for classroom size reduction, teacher salary increases, dropout prevention, and instructional improvement.		
<b>Funds Expended</b>	24,564,500	49,564,500
<b>Year-End Fund Balance</b>	18,687,300	16,922,900
<b>Internal Services Fund</b> (EDA4209/A.R.S. § 35-142)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Federal indirect cost monies and intra-office fees for copier services, MIS maintenance, postage and other miscellaneous expenditures.		
<b>Purpose of Fund:</b> Clearing fund for federal indirect costs and miscellaneous intra-office revenues and expenditures.		
<b>Funds Expended</b>	2,923,700	4,058,300
<b>Year-End Fund Balance</b>	1,481,600	703,500
<b>Permanent State School Fund</b> (EDA3138/A.R.S. § 37-521)		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> Monies received from the sale or lease of state school trust lands and investment earnings on principal balances in the fund. Under A.R.S. § 37-521, expendable earnings in the fund, up to the amount generated in FY 2001 (\$72,263,000), are automatically appropriated first to pay for debt service on State School Facilities Revenue Bonds, Qualified Zone Academy Bonds (QZAB) or State School Trust Revenue Bonds. Any remaining monies from the \$72,263,000 baseline total are then subject to appropriation to ADE to help fund Basic State Aid pursuant to A.R.S. § 15-971H. Expendable earnings beyond the \$72,263,000 baseline total from FY 2001 are automatically deposited into the Classroom Site Fund, as required by A.R.S. § 37-521B4.		
In the display below, the "Funds Expended" total equals the amount used for Basic State Aid. Not included are monies automatically appropriated into the Classroom Site Fund pursuant to A.R.S. § 37-521B4. (See "State Land Trust Bond Debt Service Fund" and "School Improvement Revenue Bond Debt Service Fund" in the Summary of Funds for the School Facilities Board budget for information on other uses of expendable monies from this fund.)		
<b>Purpose of Fund:</b> To support common schools.		
<b>Funds Expended</b>	46,475,500	46,475,500
<b>Year-End Fund Balance</b>	6,865,800	6,865,800
<b>Production Revolving Fund</b> (EDA4211/A.R.S. § 15-237)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Print shop collections from in-house and interagency publishing.		
<b>Purpose of Fund:</b> To fund agency print shop expenditures.		
<b>Funds Expended</b>	1,997,000	2,628,800
<b>Year-End Fund Balance</b>	1,273,100	768,300
<b>Proposition 301 Fund</b> (EDA1014/A.R.S. § 42-5029E7)		<b>Partially-Appropriated</b>
<b>Source of Revenue:</b> A portion of the Proposition 301 sale tax pursuant to A.R.S. § 42-5029E5-7. The appropriated portion of the fund receives "up to \$7 million" monies appropriated by the Legislature pursuant to A.R.S. § 42-5029E7. The non-appropriated portion receives monies automatically appropriated by Proposition 301 for additional school days, School Safety and Character Education, plus any unspent "up to \$7 million" monies from the prior year.		
<b>Purpose of Fund:</b> To pay for K-12 Achievement Testing (appropriated) and additional school days, School Safety and Character Education (non-appropriated).		
<b>Appropriated Funds Expended</b>	371,100	7,000,000
<b>Non-Appropriated Funds Expended</b>	97,346,100	98,278,100
<b>Year-End Fund Balance</b>	14,071,000	10,073,400

SUMMARY OF FUNDS	FY 2014 Actual	FY 2015 Estimate
<b>Special Education Fund</b> (EDA1009/A.R.S. § 15-1182)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> To provide voucher funding for students attending the ASDB pursuant to A.R.S. § 15-1182 or who are placed in a private special education facility pursuant to A.R.S. § 15-1202. Expenditures are not displayed to avoid double counting of the General Fund.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	5,310,700	5,307,200
<b>Structured English Immersion Fund</b> (EDA2535/A.R.S. § 15-756.04)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> To fund additional instructional costs of English Language Learners. Expenditures are not displayed to avoid double counting General Fund. Laws 2013, 1st Special Session, Chapter 3 required ADE to transfer \$10,000,000 from the fund to the state General Fund during FY 2014 in order to draw down accumulated balances.		
<b>Funds Expended</b>	0	0
<b>Year-End Fund Balance</b>	136,800	136,800
<b>Student Success Fund</b> (EDA2575/A.R.S. § 15-917)		<b>Appropriated</b>
<b>Source of Revenue:</b> Legislative appropriations from the state General Fund.		
<b>Purpose of Fund:</b> To provide funding to school districts and charter holders based on achievement and improvement on the assigned achievement profile pursuant to A.R.S. § 15-241.		
<b>Funds Expended</b>	0	21,500,000
<b>Year-End Fund Balance</b>	2,400,000	2,400,000
<b>Teacher Certification Fund</b> (EDA2399/A.R.S. § 15-531)		<b>Appropriated</b>
<b>Source of Revenue:</b> Fees collected by the State Board of Education from teachers and other school personnel who apply for professional certification.		
<b>Purpose of Fund:</b> To provide monies for operation of the department's Teacher Certification program.		
<b>Funds Expended</b>	2,119,400	2,360,500
<b>Year-End Fund Balance</b>	10,600	10,600
<b>Technology-Based Language Development and Literacy Intervention Fund</b> (EDA2579/A.R.S. § 15-217)		<b>Appropriated</b>
<b>Source of Revenue:</b> Unused monies from the now-repealed Early Graduation Scholarship Program. The FY 2015 K-12 Education Budget Reconciliation Bill (Laws 2014, Chapter 17) required the Commission for Postsecondary Education to transfer these monies (\$546,800) into the fund from its IGA/ISA Fund by August 1, 2014. As session law, Chapter 17 also appropriated \$300,000 annually from the new fund in FY 2015 and FY 2016 for the pilot program.		
<b>Purpose of Fund:</b> To fund a pilot program to promote English language development and literacy for public school pupils in Grades K-6.		
<b>Funds Expended</b>	0	300,000
<b>Year-End Fund Balance</b>	0	246,800
<b>Youth Farm Loan Fund</b> (EDA2136/A.R.S. § 15-1172)		<b>Non-Appropriated</b>
<b>Source of Revenue:</b> The investment of trust funds held by the United States as trustee for the Arizona Rural Rehabilitation Corporation.		
<b>Purpose of Fund:</b> To furnish financial assistance to deserving young persons, under 25 years of age, who are students or former students of vocational education or to young farmers in organized vocational agriculture classes who are interested in becoming established in farming. The financial assistance is provided as guaranteed loans for those who cannot obtain financing elsewhere.		
<b>Funds Expended</b>	95,000	65,000
<b>Year-End Fund Balance</b>	157,800	95,400