

Department of Education

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	171.4	175.9	175.9 ^{1/}
Personal Services	3,908,600	4,844,800	4,844,800
Employee Related Expenditures	1,412,000	1,826,400	1,829,500
Professional and Outside Services	44,400	395,100	395,100
Travel - In State	21,000	30,200	30,200
Travel - Out of State	26,700	34,000	34,000
Other Operating Expenditures	1,854,500	1,448,100	1,448,100
Equipment	101,600	20,500	20,500
OPERATING SUBTOTAL	7,368,800	8,599,100	8,602,200^{2/}
SPECIAL LINE ITEMS			
Formula Programs			
Basic State Aid	3,107,154,500	3,253,155,100	3,327,810,300 ^{3/-6/}
K-3 Reading	39,972,700	40,007,600	40,007,800 ^{7/}
School Year 2013-2014 School District Charter School Conversions	0	0	24,500,000 ^{8/}
Student Success Funding	0	0	21,500,000 ^{9/}
Additional State Aid	286,677,100	339,269,300	352,502,000
Special Education Fund	33,242,100	33,242,100	33,242,100
Other State Aid to Districts	574,000	983,900	983,900
Non-Formula Programs			
Accountability and Achievement Testing	8,443,300	10,223,600	18,223,600 ^{10/}
Adult Education	0	4,500,000	4,500,000
Alternative Teacher Development Program	0	0	0 ^{11/12/}
Arizona Structured English Immersion Fund	8,791,400	8,791,400	4,960,400
Education Learning and Accountability System	6,200,000	0	0
English Learner Administration	4,002,500	4,016,200	6,516,700 ^{13/}
Information Technology Certifications	0	0	1,000,000
Innovative Education Program Grants	2,845,300	0	0
JTED Performance Pay	0	0	500,000 ^{14/}
JTED Soft Capital and Equipment	0	0	0 ^{15/16/}
School Safety Program	0	3,646,400	3,646,400
State Block Grant for Vocational Education	11,504,000	11,575,400	11,576,300
Student Success Fund Deposit	0	2,400,000	22,400,000 ^{9/17/}
Teacher Certification	1,639,900	1,841,900	1,842,500
Technology-Based Language Development and Literacy Intervention Pilot Program	0	0	300,000
State Board of Education			
State Board of Education	1,564,400	1,614,400	1,614,600 ^{18/}
AGENCY TOTAL	3,519,980,000	3,723,866,400	3,886,228,800^{19/-22/}
FUND SOURCES			
General Fund	3,464,988,900	3,667,831,200	3,808,392,700
Other Appropriated Funds			
Department of Education Empowerment Scholarship Account Fund	62,100	200,000	200,100
Education Learning and Accountability Fund	1,200,000	0	0
Permanent State School Fund	46,406,900	46,475,500	46,475,500
Proposition 301 Fund	5,221,200	7,000,000	7,000,000
Student Success Fund	0	0	21,500,000
Teacher Certification Fund	2,100,900	2,359,700	2,360,500
Technology-Based Language Development and Literacy Intervention Fund	0	0	300,000

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 APPROVED
SUBTOTAL - Other Appropriated Funds	54,991,100	56,035,200	77,836,100
SUBTOTAL - Appropriated Funds	3,519,980,000	3,723,866,400	3,886,228,800
Other Non-Appropriated Funds	489,579,000	571,171,500	556,239,100
Federal Funds	1,118,764,300	1,074,288,800	1,074,288,800
TOTAL - ALL SOURCES	5,128,323,300	5,369,326,700	5,516,756,700

AGENCY DESCRIPTION — The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. For FY 2015 it is anticipated that the department will oversee 237 school districts, accommodation districts and Joint Technological Education Districts and approximately 430 charter schools in their provision of public education from preschool through grade 12.

- 1/ Includes 56 GF and 29 OF FTE Positions funded from Special Line Items in FY 2015.
- 2/ The operating lump sum appropriation includes \$683,900 and 8.5 FTE Positions for average daily membership auditing and \$200,000 and 2 FTE Positions for information technology security services. (General Appropriation Act footnote)
- 3/ Includes K-12 rollover appropriation of \$930,727,700 from Laws 2013, 1st Special Session, Chapter 1. Laws 2014, Chapter 18 also appropriates \$930,727,700 in FY 2016 to reflect the deferral of FY 2015 payments.
- 4/ 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 \$46,475,500 in expendable income derived from the Permanent State School Fund and from state trust lands pursuant to A.R.S. § 37-521B for FY 2015. (General Appropriation Act footnote)
- 5/ 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. (General Appropriation Act footnote)
- 6/ 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. (General Appropriation Act footnote)
- 7/ 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. (General Appropriation Act footnote)
- 8/ Incremental monies for school district charter schools that converted to charter school status or that began operating as new schools under charter school status in FY 2014 may be expended only from the monies appropriated in the School Year 2013-2014 School District Charter Schools Conversions line item. It is the intent of the Legislature that incremental monies provided for school district charter schools that converted to charter school status or that began operating as new schools under charter school status for FY 2014 be funded in FY 2015 at \$24,500,000 in state aid statewide and that school district budget limits must be reduced accordingly. The Department of Education shall allocate monies from the School Year 2013-2014 School District Charter School Conversions line item on a pro rata basis based on the amount of incremental monies for state aid that individual school district charter schools that converted to charter school status or that began operating as new schools under charter school status for FY 2014 received for FY 2014. In addition, it is the intent of the Legislature that incremental monies provided through local property taxes for school district charter schools that converted to charter school status or that began operating as new schools under charter school status for FY 2014 in school districts that are not eligible to receive basic state aid funding be reduced in FY 2015 by the same proportion that incremental monies for state aid are reduced for school districts that are eligible for basic state aid funding for FY 2015 and that school district budget limits be reduced accordingly. "Incremental monies" means the additional funding that a school district charter school receives under the K-12 state equalization funding formula above what it would receive under that formula if the school was a district non-charter school. (General Appropriation Act footnote)
- 9/ The FY 2015 budget deposits \$22,400,000 from the General Fund into the Student Success Fund. Of that amount, \$21,500,000 is then appropriated from the Student Success Fund for incentive payments.
- 10/ 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. (General Appropriation Act footnote)
- 11/ The General Appropriation Act, as originally passed, included \$500,000 from the General Fund in FY 2015 for the Alternative Teacher Development Program Special Line Item. This amount was line-item vetoed by the Governor thus reducing the total appropriation by a corresponding amount.
- 12/ ~~The Department of Education shall award the appropriated amount to a service provider that meets all of the requirements of A.R.S. § 15-552. The service provider shall dedicate 50% of the appropriated amount for alternative teacher development programs in counties with a population of more than 900,000 persons according to the 2010 United States decennial census and 50% of the appropriated amount for alternative teacher development programs in counties with a population of less than 900,000 persons according to the 2010 United States decennial census.~~ (General Appropriation Act footnote) The stricken language reflects language vetoed by the Governor.
- 13/ 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. (General Appropriation Act footnote)
- 14/ The Department of Education shall distribute the appropriated amount to joint technical education districts on a pro rata basis based on the actual costs incurred to secure industry credential assessments and examinations for eligible students in joint technical education districts.
- 15/ The General Appropriation Act, as originally passed, included \$1,000,000 from the General Fund in FY 2015 for the JTED Soft Capital and Equipment Special Line Item. This amount was line-item vetoed by the Governor thus reducing the total appropriation by a corresponding amount.
- 16/ ~~The department of education shall distribute the appropriated amount to joint technical education districts with fewer than 2,000 average daily membership pupils for soft capital and equipment expenses. The appropriated amount must be allocated on a pro rata basis based on the average daily membership of eligible joint technical education districts.~~ (General Appropriation Act footnote) The stricken language reflects language vetoed by the Governor.

Summary

ADE's FY 2015 General Fund budget increases by \$140,561,500, or 3.8%. The budget includes:

- An increase of \$62,470,400 for 1.1% Average Daily Membership (ADM) growth in FY 2015.
- An increase of \$21,817,400 for higher average formula costs per pupil due to ongoing special education and charter growth.
- An increase of \$74,609,600 for a 1.4% inflator.
- A decrease of \$(47,000,000) to adjust for supplemental funding from FY 2014 appropriated by Laws 2014, Chapter 18.
- An increase of \$24,500,000 for charter conversions (relative to the original FY 2014 budget, which included no funding for charter conversions).
- A decrease of \$(42,349,400) for local property tax growth due to new construction (includes related property tax change impact).
- An increase of \$22,300,000 for higher Basic State Aid and Homeowner's Rebate costs due to recent statutory changes.
- An increase of \$20,000,000 for Student Success Funding.
- An increase of \$8,000,000 for Achievement Testing.
- A decrease of \$(5,247,600) for fourth year of 5-year Career Ladder phase out.
- A decrease of \$(3,831,000) for Structured English Immersion Fund to reflect current expenditure level.
- An increase of \$2,500,000 for English Learner testing.
- An increase of \$1,500,000 to fully fund large Joint Technical Education Districts (JTEDs).
- An increase of \$1,000,000 for Information Technology Certifications
- An increase of \$500,000 for JTED Performance Pay.
- A decrease of \$(207,900) for other base adjustments and standard changes.

Operating Budget

The budget includes \$8,602,200 and 90.9 FTE Positions in FY 2015 for the operating budget. These amounts consist of:

	FY 2015
General Fund	\$8,263,900
Department of Education Empowerment	
Scholarship Account Fund	200,100
Teacher Certification Fund	138,200

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$3,100 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	2,900
Department of Education Empowerment	
Scholarship Account Fund	100
Teacher Certification Fund	100

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$3,327,810,300 in FY 2015 for Basic State Aid. This amount consists of:

General Fund	3,281,334,800
Permanent State School Fund	46,475,500

The \$3,327,810,300 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 2015 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 2015, as they also are non-appropriated. In addition, it excludes \$40,007,800 for the K-3 Reading weight authorized in A.R.S. § 15-943, as those monies are appropriated to a separate line item (*see*

^{17/} This appropriation is a continuing appropriation and is exempt from the provisions of A.R.S. § 35-190, relating to lapsing of appropriations.

^{18/} The State Board of Education program 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. (General Appropriation Act footnote)

^{19/} 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. (General Appropriation Act footnote)

^{20/} Within 15 days after each apportionment of state aid that occurs pursuant to A.R.S. § 15-973B, the department shall post on its website the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)

^{21/} For FY 2015, 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 Fund 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. (General Appropriation Act footnote)

^{22/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

narrative for “K-3 Reading” Special Line Item below). It also excludes \$24,500,000 for “charter conversions” (see narrative for “School Year 2013-2014 School District Charter School Conversions” line item) and \$21,500,000 for Student Success Funding (see narrative for “Student Success Funding” line item), as those formula monies also are appropriated to separate line items.

The \$3,327,810,300 appropriated total includes a net General Fund increase of \$74,655,200 and no change from the Permanent State School Fund for FY 2015. These amounts fund the following adjustments:

General Fund	
FY 2014 Appropriation (including supplemental)	\$3,206,679,600
Base Adjustment – FY14 supplemental	(47,000,000)
Base Adjustment – FY14 enrollment growth	10,000,000
Enrollment Growth @ 1.1%	62,470,400
Higher Average Cost Per Pupil	21,817,400
1.4% Inflater	74,609,600
Fund Large JTEDs @ 95.5%	1,500,000
Property Taxes - New Construction	(47,294,600)
Property Taxes - Statutory Changes	3,800,000
Career Ladder Phase Out	(5,247,600)
FY 2015 budget	3,281,334,800
K-3 Reading Program (separate Line Item)	40,007,800
FY 2014 Charter Conversions	24,500,000
Permanent State School Fund (no change)	46,475,500
Prop 301 Sales Tax (no change) ^{1/}	86,280,500
Local Property Taxes ^{1/}	
FY 2014 Base	2,347,699,300
Property Taxes - New Construction	47,294,600
Property Taxes – Homeowner’s Rebate	(3,800,000)
FY 2015 Estimated ^{2/}	2,391,193,900
Grand Total (all sources) ^{3/}	\$5,869,792,500

^{1/} Non-appropriated, so excluded from appropriated totals.
^{2/} An estimated \$352,502,000 of this total will be funded by the state through the 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 – FY 2014 Supplemental

The budget includes a decrease of \$(47,000,000) from the General Fund in FY 2015 in order to adjust for supplemental funding from FY 2014. The FY 2015 budget separately continues \$34,500,000 of this amount through the “School Year 2013-2014 School District Charter School Conversions” line item (\$24,500,000) and the “Base Adjustment – FY 2014 Enrollment Growth” (\$10,000,000) policy issue discussed separately below. The remaining \$12,500,000 is not continued primarily because charter conversions are being funded at a lower level for FY 2015 (discussed further below) and because

part of the FY 2014 supplemental was spent on a one-time prior year state aid correction.

Base Adjustment – FY 2014 Enrollment Growth

The budget includes an increase of \$10,000,000 from the General Fund in FY 2015 to reflect higher than budgeted enrollment growth for FY 2014. That growth will increase starting point costs for the program for FY 2015 by an estimated \$10,000,000.

Enrollment Growth

The budget includes an increase of \$62,470,400 from the General Fund in FY 2015 for enrollment growth. This assumes that K-12 ADM will increase by 1.1% in FY 2015, or slightly more than the 0.9% increase observed in FY 2013 (see Table 2). It does not reflect ongoing growth in the average cost per pupil, which is described separately below.

Fiscal Year	District^{2/}	Charter^{3/}	Total	Change	% Change
2008	947,964	93,284	1,041,248	15,543	1.5%
2009	941,694	100,590	1,042,284	1,036	0.1%
2010	936,434	110,231	1,046,665	4,381	0.4%
2011	914,929	119,321	1,034,250	(12,415)	(1.2)%
2012	909,536	131,993	1,041,529	7,279	0.7%
2013	910,553	140,199	1,050,732	9,203	0.9%
2014 est	914,140	147,318	1,061,458	10,726	1.0%
2015 est	918,319	155,133	1,073,452	11,994	1.1%
2016 est	923,346	163,471	1,086,817	13,365	1.2%
2017 est	928,511	172,366	1,100,877	14,060	1.3%

^{1/} Actuals for FY 2008 through FY 2013 are from ADE payment data. 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

The budget includes an increase of \$21,817,400 from the General Fund in FY 2015 for growth in the average Basic State Aid cost per pupil for FY 2015. The average cost per pupil increases every year 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 \$21,817,400 estimate includes \$9,000,000 for charter school pupils and \$12,817,400 for special education students in FY 2015. The charter estimate assumes that board sponsored charter schools will continue to grow by approximately 9,000 ADM in FY 2015 and receive approximately \$1,000 more per pupil than non-charter pupils (9,000 X \$1,000 = \$9,000,000). The special education estimate assumes that the statewide special

education weighted student count will continue to increase by approximately 3,800 ADM in FY 2015 (see Table 3) and an average per pupil “base level add on” of \$3,373 (3,800 X \$3,373 = \$12,817,400). The assumed \$3,373 “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

Fiscal Year	Special Education ADM (weighted) ^{1/}				%
	Districts	Charters	Total	Change	
2008	76,640	2,690	79,330	5,393	7.3%
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	93,823	6,269	7.2%
2012	92,700	5,858	98,558	4,736	5.0%
2013	95,799	6,522	102,321	3,763	3.8%
2014 est	98,939	7,182	106,121	3,800	3.7%
2015 est	102,079	7,842	109,921	3,800	3.6%

^{1/} Actuals for FY 2008 through FY 2013 are from ADE payment data. Excludes “Group B” category that only receives funding weight of 0.003 (302 additional “weighted” students for FY 2013) and students enrolled at ASDB.

1.4% Inflation Adjustment

The budget includes an increase of \$74,609,600 from the General Fund in FY 2015 for a 1.4% 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 are all included in the FY 2015 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2014, Chapter 17) and will result in a “base level” of \$3,373.11 per pupil for FY 2014 versus \$3,326.54 for FY 2014.

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 budgeted FY 2015 adjustment is 1.4%, which equals the currently projected GDP price deflator for calendar year 2013. 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 the trial court for entry of a declaratory judgment in favor of the plaintiffs, which is currently pending. The budget does not include retroactive payments for FY 2011 through FY 2013.

Large JTED Funding

The budget includes an increase of \$1,500,000 from the General Fund in FY 2015 in order to fund Basic State Aid for JTEDs with more than 2,000 ADM at 95.5% apart from continuing District Additional Assistance (DAA) suspensions (which will continue to apply to all JTEDS for FY 2015). The 95.5% funding ratio for large JTEDs for FY 2015 is required by the FY 2015 Higher Education BRB (Laws 2014, Chapter 16). In FY 2014, JTEDs with more than 2,000 ADM pupils were funded at 91% and all other JTEDs at 100% apart from separate DAA suspensions. Small JTEDs continue to be funded at 100% in FY 2015 apart from separate DAA suspensions. (Please see *Formula Suspensions policy issue below for more information.*)

Property Taxes from New Construction

The budget includes a decrease of \$(47,294,600) from the General Fund in FY 2015 due to a projected 2.0% increase in statewide Net Assessed Value (NAV) from new construction in FY 2015. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) and State Equalization Tax Rate (SETR) by an estimated \$47,294,600 in FY 2015. It also will decrease state costs by \$(47,294,600), 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 0.7% in FY 2015, resulting in a net 2.7% NAV increase for new construction and existing property combined for FY 2015.

The projected 0.7% NAV increase for existing property will not affect net QTR or SETR collections in FY 2015 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 \$4.22 (from \$4.25 currently) and the SETR will decrease to \$0.5089 (from \$0.5123 currently) in FY 2015 in order to offset the estimated 0.7% NAV increase for existing property (see Table 4).

Table 4

Tax Rate	TNT Tax Rates	
	FY 2014	FY 2015
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$2.1265	\$2.1123
• Unified districts and elementary districts not located within a high school district	\$4.2530	\$4.2246
• State Equalization Tax Rate (SETR)	\$0.5123	\$0.5089

Additional K-12 property tax impacts will occur in FY 2015 due to statutory changes discussed separately below.

Property Taxes – Statutory Changes

The budget includes an increase of \$3,800,000 from the General Fund in FY 2015 to offset an anticipated reduction in K-12 QTR and SETR tax collections for FY 2015 due to

tax law changes pertaining to commercial property. Laws 2011, 2nd Special Session, Chapter 1 phases down the assessment ratio on commercial property from 20% to 18% over 4 years beginning in FY 2014, which is projected to reduce K-12 QTR and SETR property tax collections by \$(3,800,000) in FY 2015. This will increase Basic State Aid costs by an estimated \$3,800,000 in FY 2015, since QTR and SETR revenues offset state K-12 formula costs on a dollar for dollar basis.

Career Ladder Phase Out

The budget includes a decrease of \$(5,247,600) from the General Fund in FY 2015 for the fourth year of a 5-year phase out of Career Ladder funding required by Laws 2011, Chapter 29. Chapter 29 phases out existing Career Ladder funding over 5 fiscal years, starting in FY 2012, which would eliminate program funding by FY 2016. It also phases out state funding first, which maximizes the state savings in the initial years of the phase out. The budgeted \$(5,247,600) state decrease will provide Career Ladder districts with an estimated \$15,168,100 in total program funding for FY 2015. That total includes an estimated \$716,700 in state funding and \$14,451,400 from local property taxes. A total of 28 school districts participate in the Career Ladder program.

Endowment Earnings

The budget includes no change from the Permanent State School Fund in FY 2015 for endowment earnings funding for Basic State Aid. This assumes no change in debt service costs for State School Trust Revenue Bonds and Qualified Zone Academy Bonds (QZABs) that were issued by the School Facilities Board (SFB) in prior years in order to fund deficiencies correction in public schools, which would remain at \$25,787,500 for FY 2015. This leaves the amount of land trust monies available to fund Basic State Aid in FY 2015 at \$46,475,500 (unchanged). A.R.S. § 37-521 caps the amount of K-12 endowment earnings that may be used for SFB debt service and Basic State Aid combined at the FY 2001 level of endowment earnings, which was \$72,263,000. All endowment earnings above \$72,263,000 go to the Classroom Site Fund.

Endowment Earnings consist of interest and other gains on securities held in the Permanent State School Fund, receipts from leases of state lands, and interest paid to the State Land Department by buyers of state trust land who purchase land on an installment basis. "Principal" on those purchases is not considered expendable and is instead deposited into the Permanent State School Fund for investment by the State Treasurer.

Proposition 118 from the November 2012 General Election revised the formula for determining distributions of land trust earnings from the State Treasurer for FY 2013 through FY 2021 by making them equal to a flat 2.5% of the average 5-year monthly market value of a beneficiary's permanent land trust proceeds fund. Prior to this change, State Treasurer distributions were based on both average

market values and average rates of investment return for the prior 5 years.

Rollover

The budget includes no change from the General Fund in FY 2015 for the K-12 rollover. This continues to defer through the General Appropriation Act \$930,727,700 of current year (now FY 2015) state aid payments until the following fiscal year (now FY 2016).

The FY 2015 rollover will continue to affect only school districts with more than 600 students, as has been the policy since FY 2013. (The FY 2013 budget originally included small districts, but Laws 2013, 1st Special Session, Chapter 1 later exempted them starting in FY 2013.) The budget continues to exempt small districts from the K-12 rollover in FY 2015, which continues it at the \$930,727,700 level.

As a result of the continuing rollover, the 12 monthly payments that "large" school districts receive in FY 2015 will again consist of approximately 4.5 months of deferred payments from the prior year and 7.5 (rather than 12) payments from the current year. Laws 2013, 1st Special Session, Chapter 1 advance appropriated \$930,727,700 from the General Fund in FY 2015 in order to fund the \$930,727,700 deferred obligation from FY 2014. Those monies therefore do not appear in the FY 2015 General Appropriation Act. The Act, however, advance appropriates \$930,727,700 from the General Fund in FY 2016 in order to fund the deferred FY 2015 obligation.

A continued \$930,727,700 rollover for FY 2015 includes \$272,627,700 for the original FY 2008 rollover, \$330,000,000 for the additional FY 2009 rollover, \$350,000,000 for the additional FY 2010 rollover and \$(21,900,000) to exempt districts with less than 600 students.

Formula Suspensions

The budget includes no change from the General Fund in FY 2015 for a continued partial suspension of the district additional assistance (DAA) and charter additional assistance (CAA) funding formulas. This continues to suspend \$238,985,500 of DAA and \$15,656,000 of CAA for FY 2015 (both amounts unchanged from FY 2014). The continued suspensions are authorized by the K-12 Education BRB.

School districts will receive an estimated \$184,691,600 in DAA funding in FY 2015 under current projections. Without the continuing suspension they instead would receive an estimated \$447,931,900 in DAA funding, including an estimated \$24,254,800 self-funded by non-state aid districts. (DAA is authorized by A.R.S. § 15-961, which establishes DAA funding amounts [if fully funded] of \$450.76 to \$601.24 per pupil depending on the pupil's grade level and the size of their school district.) As in prior years, the K-12 Education BRB requires non-state aid

districts to reduce their budgets by the amount that their state aid would be reduced under continuing DAA suspensions if they did qualify for state aid. Non-state aid districts are school districts that are able to fully fund their K-12 formula costs with local property taxes only because of their strong local property tax base.

The K-12 BRB for FY 2015 also continues to extend this requirement to CAA reductions for non-state aid districts that have district-sponsored charter schools in order to conform to existing practice for DAA reductions.

In addition to suspending a portion of DAA and CAA, the K-12 Education BRB suspends 4.5% of state aid for JTEDs with more than 2,000 ADM for FY 2015 by funding their state aid at 95.5% of the full funding amount apart from unrelated DAA suspensions. This will suspend an estimated \$1,747,400 of large JTED funding for FY 2015. *(Please see Large JTED Funding policy issue for more information.)*

The K-12 Education BRB also continues to cap total statewide DAA reductions for school districts with less than 1,100 students at \$5,000,000 for FY 2015.

Empowerment Scholarship Accounts

The budget includes no change from the General Fund in FY 2015 for Basic State Aid costs related to Empowerment Scholarship Accounts (ESAs) authorized by A.R.S. § 15-2402. 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. Laws 2013, Chapter 250 exempted incoming Kindergartners from the requirement of being former public school students in order to qualify for an ESA starting in FY 2015. Kindergartners with ESAs who otherwise would not be attending public schools therefore now represent a new state cost under the program.

In addition, Chapter 250 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. Due to the lack of a track record on how these recent changes affect state costs, additional information will be needed in order to determine whether Basic State Aid funding should be adjusted to reflect program impacts.

Table 6 shows historical and projected data for the ESA program. For FY 2015, ADE estimates that 1,671 students will receive \$16,500,000 in ESA funding.

<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 (est)	761	\$10,200,000
FY 2015 (est)	1,671	\$16,500,000

^{1/} ADE data and estimates as of May 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 on where individual ESA recipients would have attended school apart from the program, which is unknown.

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 budget continues to appropriate \$200,000 (plus \$100 for standard changes) 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 budget likewise continues 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)*.

Three bills from the 2014 legislative session modify eligibility criteria for the ESA program, with 2 of them expanding the program and 1 adding a new restriction. Laws 2014, Chapter 199 (HB 2139) expands the program to siblings of current or previous ESA recipients and to preschool pupils with disabilities. Laws 2014, Chapter 200 (HB 2150) expands the program to a child whose parent or guardian was killed in the line of active military duty and exempts military dependents from having to have attended public school previously in order to qualify for an ESA. Laws 2014, Chapter 278 (HB 2328) newly requires previous public school attendance for students who switch to ESAs from the displaced or disabled scholarship program. Previously, any student who had received a displaced or disabled pupil scholarship in the prior year was eligible for an ESA. *(See “Additional Legislation” section for more information on Chapter 278.)*

An additional bill from the 2014 legislative session (Laws 2014, Chapter 244) (SB 1237) modifies administrative requirements for the program. Chapter 244 requires the department to provide each county school superintendent with a list of ESA students in their county rather than copies of individual ESA contracts (the prior requirement). It also requires the department to contract with an independent third party in order to determine whether an ESA participant is eligible to spend ESA monies on special

therapies or services for students with disabilities and limits such spending to eligible pupils only. In addition, Chapter 244 allows the department to transfer ESA monies to parents on a non-quarterly basis, if necessary, and requires parents to use a portion of each quarterly (or other) ESA allocation to provide an education in reading, grammar, mathematics, social studies and science.

The ESA program began in FY 2012 and originally was available only to pupils with disabilities who previously had attended public schools or had received a disabled pupil scholarship under A.R.S. § 43-1505. Laws 2012, Chapter 360, expanded it to also include 1) students attending a school district that has been assigned a letter grade of “D” or “F” pursuant to A.R.S. § 15-241, 2) a child of a parent who is a member of the United States armed forces and who is on active duty, 3) a child who is a ward of the juvenile court and who is residing with a prospective permanent placement, and 4) a child who was a ward of the juvenile court and who has been adopted or gained permanent guardianship. Laws 2013, Chapter 250 further expanded the program starting in FY 2015 to also include incoming Kindergartners who previously were not eligible because they had not attended public school in the prior year. Prior to Chapter 250, only Kindergartners who attended public school programs for preschoolers with disabilities the year before they enrolled in Kindergarten were eligible for ESA funding.

Background (Basic State Aid) – 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.) A few districts with very strong local property tax bases 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, however, 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.

K-3 Reading

The budget includes \$40,007,800 and 2 FTE Positions from the General Fund in FY 2015 for the K-3 Reading program. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 from the General Fund in FY 2015 for statewide adjustments.

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. In FY 2013, the department used \$449,500 for those purposes.

School Year 2013-2014 School District Charter School Conversions

The budget includes \$24,500,000 from the General Fund in FY 2015 for School Year 2013-2014 School District Charter School Conversions. This amount funds the following adjustments:

One-Time Funding

The budget includes an increase of \$24,500,000 from the General Fund in FY 2015 for one-time Basic State Aid costs for FY 2014 “charter conversions.” Relative to the revised FY 2014 budget (which included \$47,000,000 in supplemental funding for charter conversions and other caseload issues for FY 2014), however, the budgeted amount represents a decrease of approximately \$(8,800,000) for this issue. The \$(8,800,000) decrease results from a provision in the General Appropriation Act that caps “incremental funding” from the state for FY 2014 converters at \$24,500,000 for FY 2015 versus an estimated \$33,300,000 for FY 2014. Charter conversions increase state costs because charter schools typically receive about \$1,000 more per pupil under the Basic State Aid formula than district schools (but usually do not receive bond or override funding). The \$24,500,000 increase for FY 2015 is relative to the original FY 2014 budget, which included no funding for FY 2014 charter conversions. (At the time of the enactment of the original FY 2014 budget, the growth in charter conversions was not expected to have a cost until FY 2015.)

The General Appropriation Act requires the department to allocate monies from this line item on a pro rata basis based on the amount of incremental monies for state aid that individual school district charter schools that converted to charter school status or that began operating as new schools under charter school status for FY 2014 received for FY 2014. It is anticipated that the \$24,500,000 appropriation for this issue will provide each affected school district in FY 2015 with approximately 74% of the “incremental funding” for charter conversions that it received for FY 2014.

This funding is one-time, as Section 22 of the FY 2015 K-12 Education BRB (Laws 2014, Chapter 17) stipulates that new “charter conversions” from FY 2014 may continue to operate as charter schools only through FY 2015. The Higher Education BRB (Laws 2014, Chapter 16) amends this provision to further stipulate that FY 2015 funding for FY 2014 “converters” is as prescribed in the General Appropriation Act. Chapter 16 also stipulates that in FY 2016 the department shall compute equalization formula funding for students who in FY 2015 attended school district charter schools that “converted” in FY 2014 as if those students had attended school district non-charter schools in FY 2015 and shall adjust student counts and budget limits for FY 2016 accordingly. Apart from this provision, districts that “converted back” former charter conversions would experience substantial one-time

reductions in their student counts and budget limits for FY 2016.

In addition, Chapter 16 stipulates that beginning in FY 2015 the ADM of students in school district charter schools may not exceed by more than 20% the ADM for all students who attended school district charter schools in the school district in FY 2013. Laws 2014, Chapter 214 amends this provision to clarify that it only applies to a school district that sponsored school district charter schools that became operational prior to FY 2014 or had charter schools operated for or by the same school district prior to FY 2014. Those “pre-FY 2014 converters” will continue to be eligible to operate charter schools and receive “charter conversion” funding as in the past, but with their charter enrollment capped starting in FY 2015 at 120% of their FY 2013 charter enrollment level. Other school districts will not be allowed to operate charter schools after FY 2015, as Section 1 of Chapter 17 prohibits any entity from granting a charter to a new school district charter school, including converted schools, retroactive to June 30, 2013. (Section 22 of Chapter 17, however, allows FY 2014 converters to continue to operate through FY 2015 only, as noted above.)

Chapter 17 also stipulates that the repayment of Charter Additional Assistance that A.R.S. § 15-185A7 requires for “charter conversions” that “convert back” to non-charter status does not apply to charter schools that are required to “convert back” due to other related provisions in Chapter 17.

(See the “Charter Conversion” policy issue under Basic State Aid in the FY 2015 Baseline Book for additional information.)

Student Success Funding

The budget includes \$21,500,000 from the Student Success Fund in FY 2015 for Student Success Funding (SSF). This amount funds the following adjustments:

New Program

The budget includes an increase of \$21,500,000 from the Student Success Fund in FY 2015 for Student Success Funding (SSF). The K-12 Education BRB requires the department to distribute this funding to public schools in FY 2015 based on a formula linked to achievement profiles and improvement categories defined in the bill. A student who “exceeds proficiency” and exhibits “superior improvement,” for example, will generate \$24.50 in SSF for their school district or charter school in FY 2015. The estimated cost of the program for FY 2015 is \$21,500,000.

Funding for the program is appropriated from the Student Success Fund established by A.R.S. § 15-917. The FY 2014 budget deposits \$22,400,000 from the General Fund into the Student Success Fund. Of that amount, \$21,500,000 is 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.)

Additional State Aid

The budget includes \$352,502,000 from the General Fund in FY 2015 for Additional State Aid (ASA). This amount funds the following adjustments:

Base Adjustment

The budget includes a decrease of \$(10,212,500) from the General Fund in FY 2015 to align the program’s base budget with actual reported costs for FY 2014. The Arizona Department of Revenue (DOR) reported in November 2013 that the program would cost \$329,056,800 for FY 2014, which is \$(10,212,500) less than its FY 2014 appropriation. Program costs have been more difficult to project in recent years due to new restrictions on Homeowner’s Rebate funding established by Laws 2011, 2nd Special Session, Chapter 1, as amended by Laws 2012, Chapter 350.

New Homes

The budget includes an increase of \$4,945,200 from the General Fund in FY 2015 for increased Homeowner’s Rebate costs associated with new home construction. The \$4,945,200 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 2015 and that 41.825% of the QTR taxes owed by new homes will be paid by the state through the Homeowner’s Rebate.

Increased Rebate Percentage

The budget includes an increase of \$18,500,000 from the General Fund in FY 2015 for costs associated with an increased Homeowner’s Rebate percentage required by Laws 2011, 2nd 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 shifts that otherwise would occur in those years under Chapter 1 due to reduced assessment ratios for commercial property. For FY 2014, DOR increased the rebate percentage to 41.825% versus 40.0% in FY 2013. The currently estimated cost of the required rebate percentage increase for FY 2015 is \$18,500,000, which would reflect a rebate percentage of roughly 44.0%. DOR is not expected to determine the actual rebate percentage for FY 2015 until the summer of 2014.

Background – Additional State Aid is authorized by A.R.S. § 15-972, which requires the state to pay a portion of each homeowner’s school district primary property taxes, up to a maximum of \$600 per parcel. The 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 is

required by Article IX, Section 18 of the State Constitution, which limits Class 3 primary property taxes to no more than 1% of a home’s full cash value. All Class III properties are eligible for both “homeowner’s rebate” and “1% cap” funding.

Special Education Fund

The budget includes \$33,242,100 and 1 FTE Position from the General Fund in FY 2015 for the Special Education Fund Special Line Item. These amounts are unchanged from FY 2014.

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

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2015 for Other State Aid to Districts. This amount is unchanged from FY 2014.

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 budget includes \$18,223,600 and 2 FTE Positions in FY 2015 for Accountability and Achievement Testing. These amounts consist of:

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

These amounts fund the following adjustments:

New Testing Contract

The budget includes an increase of \$8,000,000 from the General Fund in FY 2015 for a new achievement testing contract. Achievement testing costs will increase in FY 2015 under new “Arizona College and Career Ready” tests to be implemented starting in FY 2015. The amount of the increase was not known at the time of budget enactment, as a new testing contract had not yet been awarded. (ADE expects it to be awarded in October 2014.) The budget, however, increased program funding by

\$8,000,000 in FY 2015 in order to preliminarily cover anticipated cost increases under the new contract. The final increase will depend upon selection of a test vendor, determination of a contract cost, and the availability of federal and other non-General Fund funding for the new testing program.

On a related note, the FY 2015 budget modifies an existing General Appropriation Act footnote to require JLBC review of any changes to the Achievement Testing program that will increase program costs. Previously the footnote required the State Board of Education to report such changes to the JLBC for information only.

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.

Adult Education

The budget includes \$4,500,000 from the General Fund in FY 2015 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 2014, a total of 18 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs.

The program also receives approximately \$12,800,000 in federal funding annually. Its federal monies are subject to non-supplanting and maintenance of effort requirements stipulated in federal law.

Alternative Teacher Development Program

The General Appropriation Act, as originally passed, included \$500,000 from the General Fund for an Alternative Teacher Development Program. This amount was line-item vetoed by the Governor.

The new line item would have provided funding to a teacher development service provider that met all of the requirements in A.R.S. § 15-552. The program was last funded in FY 2008.

Arizona Structured English Immersion Fund

The budget includes \$4,960,400 from the General Fund in FY 2015 for the Arizona Structured English Immersion Fund. This amount funds the following adjustments:

Base Adjustment

The budget includes a decrease of \$(3,831,000) from the General Fund in FY 2015 in order to align the program’s appropriation with actual expenditures. For FY 2014 the department estimated that it would allocate \$4,960,400 to public schools from the fund, which would be \$(3,831,000) less than the program’s FY 2014 appropriation.

The Arizona Structured English Immersion Fund was established by Laws 2006, Chapter 4 (A.R.S. § 15-756.04). Monies in the fund are distributed to school districts and charter schools based on amounts that they request pursuant to A.R.S. § 15-756.04C. The department distributed \$4,351,600 to public schools from the fund in FY 2013. It also used \$6,833,000 from the fund in FY 2013 to help pay for replacement of the English language proficiency (“AzELLA”) test for English Learners, as authorized by a footnote in the FY 2013 General Appropriation Act.

Education Learning and Accountability System

The budget includes no funding in ADE in FY 2015 for the Education Learning and Accountability System (ELAS). These amounts are unchanged from FY 2014. The program is now being funded through the Arizona Department of Administration rather than ADE. (*Please see the Arizona Department of Administration – Automation Projects Fund section for more information.*)

On a related note, the K-12 Education BRB continues 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 Education and Accountability Fund.

In addition, the K-12 Education BRB establishes a K-12 Broadband Task Force of legislators, Arizona Strategic Enterprise Technology (ASET) director, Superintendent of Public Instruction and stakeholders. The task force is required to report by December 2014 on available information and by December 2015 on recommendations on how to proceed. HB 2316 (schools; local control; student privacy) from the 2014 Legislative Session would have modified task force membership, but was vetoed by the Governor.

Background – 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).

English Learner Administration

The budget includes \$6,516,700 and 19 FTE Positions from the General Fund in FY 2015 for English Learner Programs. These amounts fund the following adjustments:

AzELLA Administration

The budget includes an increase of \$2,500,000 from the General Fund in FY 2015 for increased costs for administering the Arizona English Language Learner Assessment (“AzELLA”) test under a new testing contract.

The AzELLA 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. The AzELLA test was recently modified in order to align it with Arizona College and Career Ready standards. The new contract will cost approximately \$4,900,000 in FY 2015, which will be about \$2,500,000 more than under the prior contract. 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.

Statewide Adjustments

The budget includes an increase of \$500 from the General Fund in FY 2015 for statewide adjustments.

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 budget includes \$1,000,000 from the General Fund in FY 2015 for Information Technology Certifications. This amount funds the following adjustments:

New Program

The budget includes an increase of \$1,000,000 from the General Fund in FY 2015 for Information Technology Certifications. 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 budget includes \$500,000 from the General Fund in FY 2015 for JTED Performance Pay. This amount funds the following adjustments:

New Program

The budget includes an increase of \$500,000 from the General Fund in FY 2015 for JTED Performance Pay. A General Appropriation Act footnote requires the department to distribute the appropriated amount on a pro rata basis based on the actual costs incurred to secure industry credential assessments and examinations for JTED students.

JTED Soft Capital and Equipment

The General Appropriation Act, as originally passed, included \$1,000,000 from the General Fund in FY 2015 for JTED Soft Capital and Equipment. This amount was line-item vetoed by the Governor.

A General Appropriation Act footnote also vetoed by the Governor would have required the department to distribute the appropriated amount to JTEDs with fewer than 2,000 ADM pupils on a pro rata basis based on their ADM counts.

School Safety Program

The budget includes \$3,646,400 from the General Fund in FY 2015 for the School Safety program. These amounts are unchanged from FY 2014.

The School Safety Program places trained school resource officers or juvenile probation officers in public schools and has existed in Arizona since FY 1995. It is authorized by A.R.S. § 15-154 and is administered by the State Board of Education in conjunction with the School Safety Program Oversight Committee established in A.R.S. § 15-153. The program began in FY 1995 with a General Fund appropriation of \$2,500,000. From FY 2002 through FY 2010 (its years of peak funding) the program received

approximately \$14,500,000 annually, including \$6,700,000 from the General Fund and \$7,800,000 from Proposition 301 sales tax monies. From FY 2011 through FY 2013, the program operated solely with \$7,800,000 annually from Proposition 301.

In FY 2014, \$3,646,400 in state General Fund funding was restored for the program, providing it with General Fund support for the first time since FY 2010. That funding is continued for FY 2015 and the FY 2015 K-12 Education BRB continues to require that \$100,000 of the \$3,646,400 appropriation be used for a pilot program on school emergency readiness. The FY 2015 K-12 Education BRB requires the department to submit a report that summarizes the results of the FY 2015 program by November 1, 2015. (The FY 2014 K-12 Education BRB required a report summarizing the FY 2014 program by November 1, 2014.)

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 2014 is the last year of the current cycle.

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

State Block Grant for Vocational Education

The budget includes \$11,576,300 and 28 FTE Positions from the General Fund in FY 2015 for the State Block Grant for Vocational Education. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$900 from the General Fund in FY 2015 for statewide adjustments.

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 budget includes \$22,400,000 from the General Fund in FY 2015 for the Student Success Fund Deposit Line Item. This amount funds the following adjustments:

Program Expansion

The budget includes an increase of \$20,000,000 from the General Fund in FY 2015 in order to increase the annual deposit into the Student Success Fund from \$2,400,000 in FY 2014 to \$22,400,000 in FY 2015.

The K-12 Education BRB amends related statutory language in A.R.S. § 15-917 in order to change the name of the former “Performance Incentive Fund” to the “Student Success Fund” (SSF). It also amends statute to allow the SSF to receive monies other than legislative appropriations, require districts and charters to establish local level SSF funds to receive state allocations, and eliminate language pertaining to fund administration.

The K-12 Education BRB also includes session law provisions that establish operating parameters for the Student Success Funding program for FY 2015. (See “Student Success Funding” line item narrative for more information.)

Teacher Certification

The budget includes \$1,842,500 and 23 FTE Positions from the Teacher Certification Fund in FY 2015 for Teacher Certification. These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$600 from the Teacher Certification Fund in FY 2015 for statewide adjustments.

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 budget includes \$300,000 from the Technology-Based Language Development and Literacy Intervention Fund in FY 2015 for the Technology-Based Language Development and Literacy Intervention Pilot Program. These amounts fund the following adjustments:

New Program

The budget includes an increase of \$300,000 from the Technology-Based Language Development and Literacy Intervention Fund in FY 2015 for the first year of a 2-year pilot program required by A.R.S. § 15-216, as established by the K-12 Education BRB (Laws 2014, Chapter 17). 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. The program seeks to promote English language development and literacy for public school pupils in Grades K-6.

A.R.S. § 15-216, as established by Chapter 17, establishes the Technology-Based Language Development and Literacy Intervention Fund, which is the fund source for the program. Chapter 17 requires the Commission for Postsecondary Education to transfer \$546,800 from the Commission for Postsecondary Education IGA/ISA Fund to the Technology-Based Language Development and Literacy Intervention Fund by August 1, 2014. The \$546,800 amount consists 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. The Governor, however, vetoed the latter provision.

Finally, Chapter 17 appropriates \$300,000 annually from the Technology-Based Language Development and Literacy Intervention Fund in FY 2015 and FY 2016 to fund the pilot program.

State Board of Education

State Board of Education

The budget includes \$1,614,600 and 10 FTE Positions in FY 2015 for the State Board of Education. These amounts consist of:

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

These amounts fund the following adjustments:

Statewide Adjustments

The budget includes an increase of \$200 in FY 2015 for statewide adjustments. This amount consists of:

General Fund	100
Teacher Certification Fund	100

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.)

Additional Legislation

Property Tax Calculations

Laws 2014, Chapter 209 requires county school superintendents to submit the property tax rates and levies adopted by all of the school districts in their county to the Property Tax Oversight Commission (PTOC) for review by July 25 of each year.

New Agency Fund

Laws 2014, Chapter 214 establishes a new Department of Education Professional Development Revolving Fund (A.R.S. § 15-237.01) for use for expenses incurred for producing and delivering professional development courses and content. Monies obtained from tuition for professional development shall be deposited into the fund. Monies in the fund are subject to legislative appropriation and are non-lapsing.

Pupil Transportation

Laws 2014, Chapter 226 amends A.R.S. § 15-923 to stipulate that pupil transportation route miles driven by buses that transport students from more than one school district may be claimed only by one of the participating school districts. The department estimates that this provision will reduce Basic State Aid costs by approximately \$(1,800,000) in FY 2015. These savings are not part of the FY 2015 General Appropriation Act.

Supplemental State Aid

Laws 2014, Chapter 226 expands eligibility for supplemental state aid (A.R.S. § 15-980) to a school district that experiences a loss of more than 20% of its primary property tax revenues due to a natural disaster such as fire or flood. Previously, supplemental state aid was available only to a school district that experienced a loss of 20% or more of its primary property tax revenues due to property tax delinquencies.

Under Chapter 226, a school district that experiences a natural disaster can qualify for supplemental state aid for up to 3 fiscal years. The amount of supplemental state aid that it receives under Chapter 226 is reduced annually by 1/3rd and by any increase in property tax revenue that occurs each year due to assessed valuation growth.

The department estimates that this provision will increase Basic State Aid costs by approximately \$500,000 in FY 2015. This cost is not part of the General Appropriation Act.

Displaced or Disabled Pupil Scholarships

Laws 2014, Chapter 278 eliminates the requirement that pupils must have previously attended public school in order to be eligible for scholarships provided for displaced or disabled pupil by school tuition organizations (STOs)

funded with tax credit-eligible contributions from corporations pursuant to A.R.S. §43-1505. This change is not expected to have a state fiscal impact because the bill does not increase the current \$5,000,000 cap in tax credits that are permitted each year for related corporate STO contributions.

While Chapter 278 eliminates the requirement that pupils must have previously attended public school in order to be eligible for displaced or disabled STO scholarships, it adds that requirement for students who wish to switch from a displaced or disabled STO scholarship to an Empowerment Scholarship Account (ESA) pursuant to A.R.S. §15-2402. Previously, any student who had received a displaced or disabled pupil scholarship in the prior year and who continued to attend a qualified school was eligible for an ESA. (See ESA narrative above for more information on the ESA program.)

Other Issues

Education Learning and Accountability System

The budget includes FY 2015 transfers from the General Fund and from department funds associated with establishing the Education Learning and Accountability System. (Please see the Department of Administration – Automation Projects Fund section for details regarding this information technology project.)

Achievement Testing

The department will be implementing a new statewide achievement test in FY 2015 (see narrative for Accountability and Achievement Testing line item above). While the new test has not yet been selected, ADE will align it 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 3rd Grade, however, will still need to score at better than the “falls far below the 3rd Grade level” on ACCR English language tests in order to be promoted to 4th 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 will 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.

Two different state consortia are currently working to develop Common Core tests: 1) the Partnership for Assessment of Readiness for College and Careers (PARCC), and 2) the SMARTER Balanced Assessment Consortium. Arizona was one of 23 member states for PARCC until it ended its participation in May 2014. Both consortia are using federal “Race to the Top” grants to fund test development and plan to make their Common Core tests available to states for the 2014-2015 school year. 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. In addition, although the PARCC and SMARTER Balanced consortia are developing initial versions of the tests, new test questions will need to be continually developed and the cost of that ongoing development will be factored into annual contract costs.

Arizona will use a competitive bid process to select a vendor to provide the new test and the scoring. As a result, the cost of the new testing contract is uncertain at this time. ADE issued a Request for Information (RFI) for the new testing contract in the fall of 2013. It expects the State Board of Education to release the RFP for the new contract by June 2014 and expects to award the contract by October 2014. Actual contract costs for the new tests should become known once the procurement process nears completion.

ADE will need to fund both ACCR testing and continued AIMS retesting in FY 2015, since AIMS retesting will

continue through 2016, as noted above. ADE estimates that it will cost approximately \$5,000,000 to fund AIMS retests (plus continued AIMS Science testing in Grades 4, 8 and 10) and approximately \$21,750,000 to fund ACCR testing in FY 2015 for a combined testing cost of approximately \$26,750,000. The ACCR estimate assumes that 750,000 students will take ACCR tests in FY 2015 at an average cost of approximately \$29 per pupil based on PARCC estimates. These amounts do not include ADE costs for program administration. With program administration, ADE estimates that the achievement testing program as a whole will cost \$29,854,600 in FY 2015.

The \$29,854,600 estimate assumed that ADE would receive a \$15,000,000 increase in General Fund funding for achievement testing for FY 2015. The enacted FY 2015 budget instead provided a General Fund increase of \$8,000,000.

Assuming that the state proceeds with ACCR, the amount of additional General Fund funding needed for achievement testing in FY 2015 will depend primarily on 3 factors: 1) actual contract costs for AIMS and ACCR testing, 2) available federal funding, and 3) available carry forward funding from Proposition 301 (which helps funding testing costs) and other sources.

In order for ACCR tests to be administered on-line to all Arizona public school pupils, every school would need sufficient computers, bandwidth and related infrastructure. The magnitude and cost of technology upgrades needed to equip all Arizona public schools for statewide ACCR testing is currently unknown. ADE indicates, however, that “paper and pencil” versions of ACCR tests will be made available in FY 2015 to school districts and charter schools that lack technology needed for on-line ACCR testing.

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 2014, 102 districts statewide had M&O overrides pursuant to A.R.S. § 15-481, 19 had “Special Program” overrides pursuant to A.R.S. § 15-482, and 20 had District Additional Assistance overrides. The total amounts budgeted for overrides for FY 2014 included \$383,661,700 for both types of M&O overrides combined and \$59,210,200 for District Additional Assistance overrides. (*See the School Facilities Board budget narrative for a related summary on K-12 Capital Bonding.*)

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.