

Department of Education

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	208.9	202.9	229.9
Personal Services	4,429,600	4,384,300	4,384,300
Employee Related Expenditures	1,564,800	1,627,800	1,795,200
Professional and Outside Services	397,900	399,500	399,500
Travel - In State	4,700	11,200	11,200
Travel - Out of State	0	17,500	17,500
Other Operating Expenditures	4,405,400	6,583,600	4,001,700
Equipment	304,500	25,600	25,600
OPERATING SUBTOTAL	11,106,900	13,049,500	10,635,000 ^{2/3/4/5/}
SPECIAL LINE ITEMS			
FY 2023 Salary Increase	0	0	1,084,400
Formula Programs			
Basic State Aid	4,928,172,500	5,611,174,900	6,517,782,700 ^{9/-12/}
State Aid Supplement	75,000,000	75,000,000	75,000,000 ^{13/14/}
Results-Based Funding	0	68,600,000	68,600,000 ^{15/}
Special Education Fund	36,029,200	36,029,200	36,029,200
Other State Aid to Districts	124,800	983,900	983,900
Classroom Site Fund	585,143,300	977,025,600	946,524,800 ^{16/}
Instructional Improvement Fund	76,298,500	54,425,700	54,425,700 ^{17/}
Property Tax Relief			
Additional State Aid	333,676,500	460,630,300	510,093,700
Non-Formula Programs			
Accountability and Achievement Testing	9,428,100	21,423,300	20,427,100 ^{18/19/}
Adult Education	4,502,100	4,867,800	21,493,400 ^{20/}
Adult Education and Workforce Development Administration	0	0	250,000
Alternative Teacher Development Program	500,000	500,000	500,000
Arizona Empowerment Scholarship Account Administration	1,407,400	2,176,400	4,426,800 ^{21/}
Arizona English Language Learner Fund	4,960,400	4,960,400	4,960,400
Childhood Trauma Awareness and Prevention Training Grants	0	0	100,000 ^{22/}
Code Writers Initiative Program	0	0	1,000,000
College Credit by Examination Incentive Program	5,000,000	7,472,100	7,472,100
College Placement Exam Fee Waiver	0	1,265,800	1,265,800
Computer Science Professional Development Program	0	1,000,000	1,000,000
CTED Completion Grants	1,000,000	1,000,000	1,000,000 ^{23/24/25/}
CTED Industry Credential Incentive Program	5,000,000	5,000,000	0
CTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 ^{26/}
Early Literacy	12,000,000	12,000,000	12,000,000
Education Learning and Accountability System	5,305,300	5,315,400	5,339,800 ^{27/}
English Learner Administration	6,541,600	6,516,900	6,538,800
Extraordinary Special Education Needs Fund Deposit	0	5,000,000	0
Foster Home Youth Transitional Housing	0	0	10,000,000 ^{28/}
Geographic Literacy	100,000	100,000	100,000 ^{29/}
Gifted Assessments	0	850,000	850,000
Invest in Postsecondary Success Program Fund Deposit	0	0	1,000,000
Jobs for Arizona Graduates	100,000	100,000	100,000 ^{30/}
Office of Indian Education	0	0	5,000,000 ^{31/}
Onetime Electronic Incident Prevention Programs	0	0	150,000 ^{32/}
School Safety Program	33,924,800	31,925,200	81,932,100 ^{33/34/}
State Block Grant for Vocational Education	11,539,100	11,576,300	11,628,100

	FY 2021 ACTUAL	FY 2022 ESTIMATE	FY 2023 APPROVED
Student Level Data Access	0	350,000	350,000
Teacher Certification	1,950,500	2,403,000	2,462,900
Teacher Professional Development Pilot	78,800	400,000	0
Tribal College Dual Enrollment Program	157,500	325,000	325,000
AGENCY TOTAL	6,150,047,300	7,424,446,700	8,423,831,700 ^{35/-38/}
FUND SOURCES			
General Fund	5,090,264,300	5,910,547,300	6,923,894,300
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	0	350,000	357,900
Department of Education Professional Development Revolving Fund	0	2,701,100	0
Education Sales Tax Fund	0	7,000,000	7,000,000
Permanent State School Fund	300,555,000	309,832,400	328,895,600
Teacher Certification Fund	1,848,200	2,359,100	2,527,900
Tribal College Dual Enrollment Program Fund	157,500	325,000	325,000
SUBTOTAL - Other Appropriated Funds	302,560,700	322,567,600	339,106,400
SUBTOTAL - Appropriated Funds	5,392,825,000	6,233,114,900	7,263,000,700
<u>Expenditure Authority Funds</u>			
Classroom Site Fund – Carryforward	0	236,163,800	73,796,200
Classroom Site Fund – Land Trust	107,142,200	123,167,700	128,463,900
Education Sales Tax	573,781,600	777,574,600	904,145,200
Instructional Improvement Fund	76,298,500	54,425,700	54,425,700
SUBTOTAL - Expenditure Authority Funds	757,222,300	1,191,331,800	1,160,831,000
SUBTOTAL - Appropriated/Expenditure Authority Funds	6,150,047,300	7,424,446,700	8,423,831,700
Other Non-Appropriated Funds	15,993,500	19,287,600	19,287,600
Federal Funds	1,465,534,100	2,839,559,500	2,839,559,500
TOTAL - ALL SOURCES	7,631,574,900	10,283,293,800	11,282,678,800

AGENCY DESCRIPTION - The Department of Education (ADE) is headed by the Superintendent of Public Instruction, an elected constitutional officer. ADE currently oversees 236 school districts, accommodation districts and Career Technological Education Districts and 435 charter schools in their provision of public education from preschool through grade 12.

FOOTNOTES

- 1/ Includes 138.6 GF and 34.4 OF FTE Positions funded from Special Line Items in FY 2023.
- 2/ The operating lump sum appropriation includes \$683,900 and 8.5 FTE positions for average daily membership auditing and \$200,000 and 2 FTE positions for information technology security services. (General Appropriation Act footnote)
- 3/ The amount appropriated for the department of education's operating budget includes \$500,000 for technical assistance and state-level administration of the K-3 reading program established pursuant to section 15-211, Arizona Revised Statutes. (General Appropriation Act footnote)
- 4/ Any monies available to the department of education pursuant to section 42-5029.02, subsection A, paragraph 8, Arizona Revised Statutes, for the failing schools tutoring fund established by section 15-241, Arizona Revised Statutes, in excess of the expenditure authority amounts are allocated for the purposes of section 42-5029.02, subsection A, paragraph 8, Arizona Revised Statutes. (General Appropriation Act footnote)
- 5/ Any monies available to the department of education pursuant to section 42-5029.02, subsection A, paragraph 6, Arizona Revised Statutes, for character education matching grants pursuant to section 15-154.01, Arizona Revised Statutes, in excess of the expenditure authority amounts are allocated for the purposes of section 42-5029.02, subsection A, paragraph 6, Arizona Revised Statutes. (General Appropriation Act footnote)
- 6/ Laws 2021, Chapter 408 appropriated \$865,727,700 from the General fund for the K-12 rollover.
- 7/ The appropriation for basic state aid provides basic state support to school districts for maintenance and operations funding as provided by section 15-973, Arizona Revised Statutes, and includes an estimated \$328,895,600 in expendable

- income derived from the permanent state school fund and from state trust lands pursuant to section 37-521, subsection B, Arizona Revised Statutes, for fiscal year 2022-2023. (General Appropriation Act footnote)
- 8/ Monies derived from the permanent state school fund and any other non-state general fund revenue source that is dedicated to fund basic state aid shall be spent, whenever possible, before spending state general fund monies. (General Appropriation Act footnote)
- 9/ Except as required by section 37-521, Arizona Revised Statutes, all monies received during the fiscal year from national forests, interest collected on deferred payments on the purchase of state lands, income from investing permanent state school funds as prescribed by the enabling act and the Constitution of Arizona and all monies received by the superintendent of public instruction from whatever source, except monies received pursuant to sections 15-237 and 15-531, Arizona Revised Statutes, when paid into the state treasury are appropriated for apportionment to the various counties in accordance with law. An expenditure may not be made except as specifically authorized above. (General Appropriation Act footnote)
- 10/ Any monies available to the department of education pursuant to section 42-5029.02, subsection A, paragraph 5, Arizona Revised Statutes, for the increased cost of basic state aid under section 15-971, Arizona Revised Statutes, due to added school days in excess of the expenditure authority amounts are allocated for the purposes of section 42-5029.02, subsection A, paragraph 5, Arizona Revised Statutes. (General Appropriation Act footnote)
- 11/ A. The sum of \$17,978,000 is appropriated from the state general fund in fiscal year 2023-2024 to the department of education for basic state aid. The appropriated amount shall be used to fund an ongoing increase in the per pupil charter additional assistance amounts prescribed in section 15-185, subsection B, paragraph 4, Arizona Revised Statutes, above the amount of charter additional assistance that otherwise would be provided by law for fiscal year 2023-2024.
- B. The sum of \$71,022,000 is appropriated from the state general fund in fiscal year 2023-2024 to the department of education for basic state aid. The appropriated amount shall be used to fund an ongoing increase in the per pupil district additional assistance amounts prescribed in section 15-961, Arizona Revised Statutes, above the amount of district additional assistance that otherwise would be provided by law for fiscal year 2023-2024.
- C. The sum of \$63,000,000 is appropriated from the state general fund in fiscal year 2023-2024 to the department of education for basic state aid. The appropriated amount shall be used to fund an ongoing increase in the FRPL group B weight established by section 15-943, paragraph 2, subdivision (b), Arizona Revised Statutes.
- 12/ A. The sum of \$23,836,000 is appropriated from the state general fund in fiscal year 2024-2025 to the department of education for basic state aid. The appropriated amount shall be used to fund an ongoing increase in the per pupil charter additional assistance amounts prescribed in section 15-185, subsection B, paragraph 4, Arizona Revised Statutes, above the amount of charter additional assistance that otherwise would be provided by law for fiscal year 2024-2025.
- B. The sum of \$94,164,000 is appropriated from the state general fund in fiscal year 2024-2025 to the department of education for basic state aid. The appropriated amount shall be used to fund an ongoing increase in the per pupil district additional assistance amounts prescribed in section 15-961, Arizona Revised Statutes, above the amount of district additional assistance that otherwise would be provided by law for fiscal year 2024-2025.
- C. The sum of \$100,000,000 is appropriated from the state general fund in fiscal year 2024-2025 to the department of education for basic state aid. The appropriated amount shall be used to fund an ongoing increase in the FRPL group B weight established by section 15-943, paragraph 2, subdivision (b), Arizona Revised Statutes.
- 13/ Laws 2015, 1st Special Session, Chapter 1 appropriated \$50,000,000 annually for FY 2016 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 from the General Fund for school districts and charter schools.
- 14/ The Department of Education shall allocate the appropriated amount to school districts and charter schools on a pro rata basis using the weighted student count for the school district or charter school for the fiscal year pursuant to A.R.S. § 15-943, paragraph 2, subdivision (a) and increase the budget limits pursuant to A.R.S. § 15-947 accordingly. For the purposes of this subsection, the weighted student count for a school district that serves as the district of attendance for nonresident pupils shall be increased to include nonresident pupils who attend school in the school district. (Laws 2015, 1st Special Session, Chapter 1, Section 6 footnote)
- 15/ Notwithstanding section 15-901.03, Arizona Revised Statutes, the superintendent of public instruction may transfer \$5,000,000 from the state general fund appropriation for basic state aid for fiscal year 2021-2022 to the results-based funding program for fiscal year 2021-2022 without review by the joint legislative budget committee. Any amount transferred to the results-based funding program under this section that exceeds the amount needed to address a funding shortfall for the results-based funding program for fiscal year 2021-2022 reverts to the state general fund on June 30, 2022. (General Appropriation Act footnote)
- 16/ Any monies available to the department of education for the classroom site fund pursuant to section 37-521, subsection B, paragraph 4, Arizona Revised Statutes, and section 42-5029.02, subsection A, paragraph 10, Arizona Revised Statutes, in excess of expenditure authority amounts are allocated for the purposes of section 37-521, subsection B, paragraph 4,

Arizona Revised Statutes, and section 42 5029.02, subsection A, paragraph 10, Arizona Revised Statutes. (General Appropriation Act footnote)

- 17/ Any monies available to the department of education from the instructional improvement fund established by section 15-979, Arizona Revised Statutes, in excess of the expenditure authority amounts are allocated for the purposes of section 15-979, Arizona Revised Statutes. (General Appropriation Act footnote)
- 18/ Before making any changes to the achievement testing program that will increase program costs, the department of education and the state board of education shall submit the estimated fiscal impact of those changes to the joint legislative budget committee for review. (General Appropriation Act footnote)
- 19/ Any monies available to the department of education for accountability purposes pursuant to section 42-5029.02, subsection A, paragraph 7, Arizona Revised Statutes, in excess of the expenditure authority amounts are allocated for the purposes of section 42-5029.02, subsection A, paragraph 7, Arizona Revised Statutes. (General Appropriation Act footnote)
- 20/ The appropriated amount for adult education includes \$4,620,000 for the continuing high school and workforce training program established by section 15-217.01, Arizona Revised Statutes, \$6,000,000 for deposit in the adult workforce diploma program fund established by section 15-217.02, subsection B, Arizona Revised Statutes and \$6,000,000 for deposit in the community college adult education workforce development program fund established by section 15-217.03, subsection C, Arizona Revised Statutes. (General Appropriation Act footnote)
- 21/ Laws 2022, Chapter 388 appropriated \$2,200,000 and 26 FTE Positions from the General Fund for the purposes of administering Arizona Empowerment Scholarship Accounts.
- 22/ The sum of \$100,000 is appropriated from the state general fund in fiscal year 2022-2023 to the superintendent of public instruction for onetime childhood trauma awareness and prevention grants. The department of education may distribute the grants to a nonprofit organization that provides childhood trauma awareness and prevention training to certificated teachers and public school administrators in this state. (General Appropriation Act footnote)
- 23/ Monies appropriated for CTED completion grants are intended to help fund program completion for students who complete at least fifty percent of a career technical education program before graduating from high school and who successfully complete the career technical education district program after graduating from high school. The application procedures shall award grant funding only after an eligible student has successfully completed a career technical education district program. (General Appropriation Act footnote)
- 24/ If the appropriated amount for CTED completion grants is insufficient to fund all grant requests from career technical education districts, the department of education shall reduce grant amounts on a proportional basis in order to cap total statewide allocations at \$1,000,000. (General Appropriation Act footnote)
- 25/ The appropriated amount for CTED completion grants is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations, until June 30, 2024. (General Appropriation Act footnote)
- 26/ The department of education shall distribute the appropriated amount for CTED soft capital and equipment to career technical education districts with fewer than two thousand average daily membership pupils for soft capital and equipment expenses. The appropriated amount shall be allocated on a pro rata basis based on the average daily membership of eligible career technical education districts. (General Appropriation Act footnote)
- 27/ The department of education shall use the appropriated amount for English learner administration to provide English language acquisition services for the purposes of section 15-756.07, Arizona Revised Statutes, 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 may use a portion of the appropriated amount to hire staff or contract with a third party to carry out the purposes of section 15-756.07, Arizona Revised Statutes. Notwithstanding section 41-192, Arizona Revised Statutes, 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)
- 28/ The amount appropriated for foster home youth transitional housing shall be distributed to the East valley institute of technology for a transitional housing unit. The legislature intends that the monies be used to construct and furnish a sixty-four bed transitional housing unit for foster youths who are at least seventeen years of age but not more than twenty-one years of age and who need stable housing in order to obtain a high school diploma or a high school equivalency diploma and who are earning an industry certification in a program offered by the East valley institute of technology. On or before September 15 in years 2025, 2026 and 2027, the superintendent of the East valley institute of technology shall submit a report to the governor, the president of the senate, the speaker of the house of representatives and the directors of the joint legislative budget committee and the governor's office of strategic planning and budgeting, and provide a copy to the secretary of state, detailing the total number of foster youths who lived in the transitional housing unit during the immediately preceding fiscal year and the progress that each foster youth made

toward obtaining a high school diploma or a high school equivalency diploma and earning an industry certification during the fiscal year. (General Appropriation Act footnote)

- 29/ The department of education shall use the appropriated amount for geographic literacy to issue a grant to a statewide geographic alliance for strengthening geographic literacy in this state. (General Appropriation Act footnote)
- 30/ The department of education shall use the appropriated amount for jobs for Arizona graduates to issue a grant to a nonprofit organization for a JOBS for Arizona graduates program. (General Appropriation Act footnote)
- 31/ A. The sum of \$5,000,000 is appropriated from the state general fund to the superintendent of public instruction for a onetime distribution to the office of Indian education established in section 15-244, Arizona Revised Statutes.
B. The appropriation made in subsection A of this section is exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to the lapsing of appropriations. (General Appropriation Act footnote)
- 32/ The department of education shall use the amount appropriated for onetime electronic incident prevention programs for the purposes of awarding student safety grants to public schools. A public school that receives a student safety grant under this section shall use the grant monies to procure and implement an electronic incident prevention program. (General Appropriation Act footnote)
- 33/ The amount appropriated for the school safety program includes an increase of \$50,000,000 for additional school safety grants. In allocating the \$50,000,000 increase, the department of education shall first distribute monies to schools on the school safety program waiting list to receive grants for the costs of placing school resource officers on school campuses. The awarded grants may not supplant funding provided by local governments for school resource officers. If the total cost of funding new grants for school resource officer costs is less than \$50,000,000, the department may allocate the remaining monies to grants to schools for the costs of placing school counselors and social workers on school campuses pursuant section 15-154, Arizona Revised Statutes. (General Appropriation Act footnote)
- 34/ Any monies available to the department of education for school safety pursuant to section 42-5029.02, subsection A, paragraph 6, Arizona Revised Statutes, in excess of the expenditure authority amounts are allocated for the purposes of section 42-5029.02, subsection A, paragraph 6, Arizona Revised Statutes. (General Appropriation Act footnote)
- 35/ After review by the joint legislative budget committee, in fiscal year 2022-2023, the department of education may use a portion of its fiscal year 2022-2023 state general fund appropriations for basic state aid, additional state aid or the special education fund to fund a shortfall in funding for basic state aid, additional state aid or the special education fund, if any, that occurred in fiscal year 2021-2022. (General Appropriation Act footnote)
- 36/ The department shall provide an updated report on its budget status every three months for the first half of each fiscal year and every month thereafter to the president of the senate, the speaker of the house of representatives, the chairpersons of the senate and house of representatives appropriations committees, the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting. Each report shall include, at a minimum, the department's current funding surplus or shortfall projections for basic state aid and other major formula-based programs and is due thirty days after the end of the applicable reporting period. (General Appropriation Act footnote)
- 37/ Within fifteen days after each apportionment of state aid that occurs pursuant to section 15-973, subsection B, Arizona Revised Statutes, the department shall post on its website the amount of state aid apportioned to each recipient and the underlying data. (General Appropriation Act footnote)
- 38/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

ADE's FY 2023 General Fund spending increases by \$1,013,347,000 or 17.1% above the FY 2022 appropriation. The budget includes the following funding changes:

Standard Formula Adjustments

- A decrease of \$(244,653,200) for lower-than-budgeted FY 2022 Average Daily Membership (ADM).
- An increase of \$141,214,000 for FY 2023 enrollment growth of 11,777 pupils.
- An increase of \$137,721,900 for a 2.0% inflator.
- A decrease of \$(57,624,300) for local property tax growth due to new construction

- Increased Homeowner's Rebate expenses of \$49,463,400. This amount includes \$30,000,000 to increase the Homeowner's Rebate percentage from 47.19% in FY 2022 to 50.0% in FY 2023 and \$4,400,000 for increased expenses associated with a reduction in the assessment ratio for commercial property from 18.0% in FY 2022 to 17.5% in FY 2023 pursuant to Laws 2021, Chapter 412.
- A decrease of \$(19,063,200) to offset higher available endowment earnings under Proposition 123.

Basic State Aid Funding Increases

- An increase of \$389,300,000 for an additional 6.76% increase to the Base Level, for a total Base Level increase of 8.76% above FY 2023. This amount includes a reduction of \$(70,000,000) associated with

a (1.25)% reduction to the Base Level for school districts associated with the elimination of Additional Monies for Teacher Compensation established by A.R.S. § 15-952.

- An increase of \$330,535,400 for elimination of the State Equalization Tax Rate (SETR).
- An increase of \$100,000,000 for Special Education formula funding.
- A one-time increase of \$65,000,000 to eliminate the K-12 rollover for districts with more than 2,000 but less than 4,000 students.
- An increase of \$60,000,000 to increase the per pupil amounts in the District Additional Assistance (DAA) and Charter Additional Assistance (CAA) formulas.
- An increase of \$50,000,000 to establish a new Group B weight for students eligible for the federal Free and Reduced-Price Lunch (FRPL) program.
- An increase of \$114,000 to allow county jail education programs to receive Basic State Aid for inmates aged 18-21 who do not have a disability and who have not yet received a high school diploma

Non-Formula Funding Changes

- An increase of \$50,000,000 for the School Safety Program. Districts and charter schools on the waiting list to receive a grant to fund a school resource officer (SRO) will receive priority.
- An increase of \$16,620,000 for Adult Education.
- A one-time increase of \$10,000,000 for distribution to the East Valley Institute of Technology (EVIT) for Foster Home Youth Transitional Housing.
- A one-time increase of \$5,000,000 for distribution to the Office of Indian Education.
- A one-time increase of \$4,000,000 for ADE's expenses associated with the achievement testing program.
- An increase of \$2,200,000 and 26 FTE Positions for administrative funding increases for the Arizona Empowerment Scholarship program pursuant to Laws 2022, Chapter 388.
- A one-time increase of \$1,000,000 for deposit in the Invest in Postsecondary Success Program Fund.
- A one-time increase of \$1,000,000 for the Code Writers Initiative Program
- An increase of \$984,900 for a statewide employee salary increase.
- An increase of \$850,000 for Gifted Assessments.
- An increase of \$434,100 for statewide adjustments.
- An increase of \$250,000 for administration of adult education programs.
- A one-time increase of \$150,000 for grants to schools with electronic incident prevention programs.
- A one-time increase of \$100,000 for Childhood Trauma Awareness and Prevention Training Grants.

- A decrease of \$(81,250,000) to remove other funding from the FY 2022 budget that was designated as one-time.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$169,107,300 in FY 2024 above FY 2023 and \$309,571,900 in FY 2025 above FY 2024. *(See Other Issues for more information.)*

Operating Budget

The budget includes \$10,635,000 and 55.9 FTE Positions in FY 2023 for the operating budget. These amounts consist of:

	<u>FY 2023</u>
General Fund	\$8,782,100
Teacher Certification Fund	152,900
Education Sales Tax	1,700,000

FY 2023 adjustments are as follows:

Remove Unused Fund Source

The budget includes a decrease of \$(2,701,100) from the Department of Education Professional Development Revolving Fund in FY 2023. According to ADE, the fund is not currently used because the monies were intended to collect tuition monies from an online professional development program that was never started.

Statewide Adjustments

The budget includes an increase of \$286,600 in FY 2023 for statewide adjustments. This amount consists of:

General Fund	269,300
Teacher Certification Fund	17,300

(Please see the Agency Detail and Allocations section.)

FY 2023 Salary Increase

The budget includes \$1,084,400 in FY 2023 for a FY 2023 Salary Increase. This amount consists of:

General Fund	984,900
Teacher Certification Fund	91,600
Department of Education Empowerment Scholarship Account Fund	7,900

This amount funds a 10% staff salary increase. The budget requires all agencies receiving salary increases to transfer the monies in this line item to the relevant line items as part of the FY 2024 budget request submittals. These submittals will include the reallocation

for both FY 2023 and FY 2024. (Please see the Agency Details and Allocations section).

Formula Programs

Basic State Aid

The budget includes \$6,517,782,700 in FY 2023 for Basic State Aid. This amount consists of:

General Fund	6,038,506,600
Permanent State School Fund	328,895,600
Education Sales Tax	150,380,500

The \$6,517,782,700 total does not include local property taxes that will help fund K-12 formula costs for FY 2023, as they are non-appropriated (see Table 1).

Table 1
FY 2023 Basic State Aid Formula Summary (estimated)

General Fund	
FY 2022 Appropriation	\$5,150,962,000
FY 2022 Enrollment Base Adjustment	(244,653,200)
FY 2023 Enrollment Growth	141,214,000
2.0% Inflation	137,721,900
Property Taxes from New Construction	(57,624,300)
Endowment Earnings	(19,063,200)
Rollover Payoff (2,000 – 4,000 Pupils)	65,000,000
Rollover Payoff (600 to 2,000 Pupils)	(65,000,000)
Additional Base Level Increase	389,300,000
Eliminate SETR	330,535,400
Special Education Weight Increase	100,000,000
DAA/CAA Increase	60,000,000
FRPL Weight	50,000,000
County Jail Education Programs	<u>114,000</u>
FY 2023 Budget	\$6,038,506,600
Permanent State School Fund	
FY 2022 Appropriation	\$ 309,832,400
Estimated FY 2023 Growth	<u>19,063,200</u>
FY 2023 budget	\$ 328,895,600
Education Sales Tax	
FY 2023 budget	\$ 150,380,500
Local Property Taxes ¹	
FY 2023 budget - estimated	<u>\$2,530,152,000</u>
Grand Total (all sources)	\$9,047,934,700

^{1/} Non-appropriated, so excluded from appropriated totals.

FY 2023 adjustments are as follows:

Enrollment Base Adjustment

The budget includes a decrease of \$(244,653,200) from the General Fund in FY 2023 for an FY 2022 enrollment base adjustment. As of June 30, unweighted enrollment reported by ADE was (27,177) less than the enrollment assumed in the enacted FY 2022 budget. In addition, district transportation route miles for FY 2022, which will

be used for FY 2023 Basic State Aid calculations, remain approximately (15)% below pre-pandemic levels based on preliminary data published by ADE.

Enrollment Growth

The budget includes an increase of \$141,214,000 from the General Fund in FY 2023 for enrollment growth. This amount would be sufficient to fund unweighted enrollment growth in districts, charter schools, and the ESA program of 11,777 pupils, or 1.1%, and weighted enrollment growth of 1.7% above final FY 2022 student counts. Table 2 and Table 3 provide historical and projected unweighted and weighted enrollment figures through FY 2025.

Table 2

Fiscal Year	K-12 Enrollment (unweighted)				Change	% Change
	District	Charter	ESA	Total		
2017	915,797	179,788	3,360	1,098,945	9,444	0.9%
2018	913,665	189,869	5,042	1,108,576	9,631	0.9%
2019	906,004	201,757	6,450	1,114,211	5,635	0.5%
2020	907,121	208,438	7,781	1,123,340	9,129	0.8%
2021	857,139	220,678	9,777	1,087,594	(35,746)	(3.2)%
2022 est	875,051	220,925	11,775	1,107,751	20,157	1.9%
2023 est	873,926	232,402	13,200	1,119,528	11,777	1.1%
2024 est	864,387	242,216	14,625	1,121,228	1,700	0.2%
2025 est	857,911	253,250	16,050	1,127,211	5,983	0.5%

^{1/} ESA estimates do not reflect enrollment impacts of Laws 2022, Chapter 388

Table 3

Fiscal Year	K-12 Enrollment (weighted) ^{1/2/}				Change	% Change
	District	Charter	ESA	Total		
2017	1,239,690	248,277	11,668	1,499,635	13,390	0.9%
2018	1,242,424	262,390	14,775	1,519,589	19,955	1.3%
2019	1,238,223	278,094	19,698	1,536,015	16,426	1.1%
2020	1,245,681	287,844	24,493	1,558,018	22,003	1.4%
2021	1,179,670	303,774	30,696	1,514,140	(43,878)	(2.8)%
2022 est	1,214,552	299,715	38,263	1,552,530	38,390	2.5%
2023 est	1,221,254	314,198	42,928	1,578,380	25,850	1.7%
2024 est	1,216,833	327,001	47,593	1,591,427	13,047	0.8%
2025 est	1,217,156	341,416	52,266	1,610,838	19,411	1.2%

^{1/} District and charter figures are weighted ADM used for Basic State Aid formula calculations. In lieu of ADE weighted counts for ESAs, the ESA figures are JLBC Staff estimates based on ESA enrollment and spending data reported by ADE of the weighted ADM used to compute ESA recipient awards.

^{2/} The above counts exclude the impact of Special Education weight increase and the new FRPL Group B weight on weighted student counts, as these figures are intended to display formula growth excluding the effects of policy changes.

These estimates do not include potential ESA enrollment impacts associated with Laws 2022, Chapter 388, which expands ESA eligibility to all children in Arizona who are eligible to attend a public school. The JLBC Staff estimated Chapter 388 would increase ADE General Fund spending by an estimated \$33,400,000 in FY 2023, \$64,500,000 in FY 2024, and \$125,400,000 in FY 2025.

These estimates are highly speculative, however, due to uncertain participation rates among newly eligible pupils.

2.0% Inflation Adjustment

The budget includes an increase of \$137,721,900 from the General Fund in FY 2023 for a 2.0% 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. The 2.0% inflation adjustment increases the base level by \$87.81.

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. 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. (See the FY 2016 Appropriations Report for more information).

Property Taxes from New Construction

The budget includes a decrease of \$(57,624,300) from the General Fund in FY 2023 due to a 2.4% increase in statewide Net Assessed Value (NAV) from new construction. This will increase local property tax revenues from the K-12 “Qualifying Tax Rate” (QTR) by an estimated \$57,624,300 in FY 2023. It also will decrease state costs by \$(57,624,300), since QTR revenues offset state formula costs on a dollar for dollar basis.

Statewide NAV for property already on the tax rolls (“existing property”) is increasing by 3.28% in FY 2023, resulting in a net 5.68% NAV increase for new construction and existing property combined for FY 2023.

The 3.28% NAV increase for existing property will not affect net QTR collections in FY 2023 because A.R.S. § 41-1276 (the “Truth in Taxation” or “TNT” law) requires the QTR to be adjusted each year to offset NAV changes for existing properties. As a result, the QTR will decrease to \$3.4266 (from \$3.5388 currently) in FY 2023 to offset the estimated 3.28% NAV increase for existing property (see Table 4).

<u>Tax Rate</u>	<u>TNT Tax Rates</u>	
	<u>FY 2022</u>	<u>FY 2023</u>
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$1.7694	\$1.7133
• Unified districts and elementary districts not located within a high school district	\$3.5388	\$3.4266

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

The estimates of savings from new construction do not include the fiscal impact of Laws 2022, Chapter 103, which reduces the full cash value of personal property to 2.5% of the acquisition cost. This change will increase the General Fund cost of the Basic State Aid formula primarily by reducing the savings of property taxes from new construction. The JLBC Staff estimates the bill will increase the General Fund cost of the formula relative to current law by \$9,200,000 in FY 2023, \$19,200,000 in FY 2024, and \$29,600,000 in FY 2025.

Endowment Earnings Growth

The budget includes a decrease of \$(19,063,200) from the General Fund and an increase of \$19,063,200 from the Permanent State School Fund in FY 2023 for endowment earnings funding for Basic State Aid. The General Fund savings assumes that K-12 endowment earnings for Basic State Aid from the State Land Department and State Treasurer combined under Proposition 123 will equal \$328,895,600 for FY 2023, which would be \$19,063,200 more than the \$309,832,400 total assumed for FY 2022 (see Table 5).

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 established by A.R.S. § 15-977, except that Laws 2015, 1st Special Session, Chapter 1 appropriates for Basic State Aid any increase in State Treasurer land trust distributions from the new 4.4% distribution starting in FY 2016. (See the FY 2017 Appropriations Report and Other Issues for more information).

<u>Source</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>Change</u>
Original 2.5%	\$72,263,000	\$72,263,000	\$0
Prop 123 4.4%	237,569,400	256,632,600	19,063,200
Total	\$309,832,400	\$328,895,600	\$19,063,200

^{1/} These earnings also fund the Classroom Site Fund (see Table 8).

Rollover

The budget includes no net change to continue to reduce the K-12 rollover by \$(65,000,000). The FY 2022 budget included a one-time increase of \$65,000,000 to eliminate the rollover for districts with more than 600 but less than 2,000 pupils. The FY 2023 budget continues to allocate \$65,000,000 on a one-time basis in FY 2023 to eliminate the rollover for districts with more than 2,000 but less than 4,000 pupils. The one-time payment will reduce the ongoing K-12 rollover from \$865,727,700 to \$800,727,700. The FY 2023 General Appropriation Act advance appropriates \$800,727,700 from the General

Fund in FY 2024 to fund the \$800,727,700 deferred obligation from FY 2023.

Additional Base Level Increase

The budget includes an increase of \$389,300,000 from the General Fund in FY 2023 for Base Level funding increases. This amount consists of an increase of \$459,300,000 for an additional 6.76% increase to the Base Level above the 2.0% standard inflation adjustment (for a total increase of 8.76%), partially offset by a reduction of \$(70,000,000) to eliminate the 1.25% increase to the Base Level received for school districts for Additional Monies for Teacher Compensation pursuant to A.R.S. § 15-952. The resulting FY 2023 Base Level is \$4,775.27.

Eliminate State Equalization Tax Rate

The budget includes an increase of \$330,535,400 from the General Fund in FY 2023 to eliminate the State Equalization Tax Rate (SETR). Under the Basic State Aid formula, the SETR currently provides a dollar-for-dollar offset to the General Fund share of the Basic State Aid formula for all school districts within each county in proportion to their BSA funding entitlement that remains after accounting for QTR collections within the district. Given that the SETR was forecast to generate \$330,535,400 in local property tax revenues statewide in FY 2023, its elimination will increase the General Fund cost of the formula by an equivalent amount.

Special Education Weight Increase

The budget includes an increase of \$100,000,000 from the General Fund in FY 2023 to increase the Group B formula weight for children with developmental delays, emotional disabilities, mild intellectual disabilities, a specific learning disability, a speech language impairment, other health impairments from 0.093 in FY 2022 to 0.292 in FY 2023. The estimated resulting per pupil funding increase is approximately \$950.

Additional Assistance Formula Increase

The budget includes an increase of \$60,000,000 from the General Fund in FY 2023 to increase the per pupil formula amounts for District Additional Assistance (DAA) and Charter Additional Assistance (CAA) in FY 2023. The DAA allocation is \$47,900,000 while the CAA allocation is \$12,100,000. Based on current DAA/CAA enrollment, these allocations are sufficient for an average increase in Additional Assistance funding of \$55 per pupil for both districts and charter schools. The corresponding increases in the per pupil formula amounts are 11.4% for DAA and 2.62% for CAA (for a total of 4.62% after including a 2.0% regular inflation adjustment).

Sections 127 and 128 of the General Appropriation Act appropriate \$89,000,000 in FY 2024 (\$29,000,000 increase

above FY 2023) and \$118,000,000 in FY 2025 (\$58,000,000 increase above FY 2023) for further increases to the DAA/CAA formulas in those years and continue to be allocated proportionately on a per-pupil basis.

Establish Free and Reduced-Price Lunch Weight

The budget includes an increase of \$50,000,000 from the General Fund in FY 2023 to establish a new Group B weight of 0.018 for children eligible for the federal Free and Reduced-Price Lunch (FRPL) program (primarily includes children in families with incomes that are 185% or less of the Federal Poverty Level). The associated per pupil funding increase from the weight is an estimated \$86 in FY 2023.

Sections 127 and 128 of the General Appropriation Act appropriate \$63,000,000 in FY 2024 (\$13,000,000 increase above FY 2023) and \$100,000,000 in FY 2025 (\$50,000,000 increase above FY 2023) for further increase to the FRPL weight in those years.

County Jail Education Programs Increase

The budget includes an increase of \$114,000 from the General Fund in FY 2023 to authorize Basic State Aid funding for county jail inmates aged 18-21 who are not disabled and have not yet obtained a high school diploma. Current law only authorizes funding for county jail pupils with disabilities.

State Aid Supplement

The budget includes \$75,000,000 from the General Fund in FY 2023 for State Aid Supplement funding. This amount is unchanged from FY 2022.

Laws 2015, 1st Special Session Chapter 1 appropriated \$50,000,000 annually for FY 2016 through FY 2020 and \$75,000,000 annually for FY 2021 through FY 2025 for State Aid Supplement funding. The State Aid Supplement amounts for FY 2016 through FY 2025 do not appear in the General Appropriation Acts for those years, since they already were advance appropriated by Chapter 1.

The State Aid Supplement, in conjunction with Proposition 123, serves to provide additional funding for school districts and charter schools through FY 2025 as part of the state's resolution with plaintiffs in the *Cave Creek Unified School District V. Ducey* litigation (See the FY 2017 Appropriations Report).

Results-Based Funding

The budget includes \$68,600,000 from the General Fund in FY 2023 for Results-Based Funding. This amount is unchanged from FY 2022.

Background – The program provides additional funding to individual schools under a formula prescribed in A.R.S. § 15-249.08. (See the FY 2018 Appropriations Report for program requirements.)

The budget continues session law provisions from the FY 2022 K-12 Education BRB establishing Results-Based Funding per pupil funding levels and eligibility, including:

- \$400 per pupil for the following:
 - Schools Free and Reduced-Price Lunch (FRPL) eligibility of at least 60% and with statewide assessment scores in the top 13% among other schools with at least 60% FRPL eligibility.
 - Alternative High Schools with statewide assessment scores in the top 27% among other schools with at least 60% FRPL eligibility and FRPL eligibility of at least 60%.
- \$225 per pupil for the following:
 - Schools with FRPL eligibility of less than 60% and with statewide assessment scores in the top 13% statewide.
 - Schools with FRPL eligibility of at least 60% and statewide assessment scores in the top 27% in comparison to other schools with FRPL-eligibility of at least 60%.

These session law provisions continue to notwithstanding A.R.S. § 15-249.08 in FY 2023, which would otherwise make schools eligible for program funding in FY 2023 if they had a letter designation of A in the prior fiscal year (FY 2022) under the State Board of Education's A-F performance rating system pursuant to A.R.S. § 15-241. The State Board of Education has not yet determined letter grades for FY 2022. As a result, the cost of the statutory formula for FY 2023 is unknown.

The budget continues to include a General Appropriation Act Footnote for FY 2022 to allow the Superintendent of Public Instruction to transfer up to \$5,000,000 from the state General Fund appropriation for Basic State Aid for FY 2023 to this program, if needed, without JLBC review, to address any FY 2022 shortfalls.

Special Education Fund

The budget includes \$36,029,200 and 2 FTE Positions from the General Fund in FY 2023 for the Special Education Fund Line Item. These amounts are unchanged from FY 2022.

Background - The Special Education Fund provides funding for special education costs of students from 1) Arizona State Schools for the Deaf and the Blind, 2) Arizona State Hospital (ASH), or 3) programs for the

developmentally disabled operated by the Department of Economic Security (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.

A.R.S. § 15-1184 and A.R.S. § 15-1204 establish funding formulas for vouchered residential special education and vouchered ASDB or other state institutional placements, respectively. Voucher formula costs are primarily driven by the per pupil base level in the Basic State Aid formula.

Other State Aid to Districts

The budget includes \$983,900 from the General Fund in FY 2023 for Other State Aid to Districts. This amount is unchanged from FY 2022.

This amount includes \$880,200 (unchanged) for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 (unchanged) for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

Classroom Site Fund

The budget includes \$946,524,800 in FY 2023 for the Classroom Site Fund (CSF). This amount consists of:

Education Sales Tax	744,264,700
Classroom Site Fund - Land Trust	128,463,900
Classroom Site Fund - Carry-Forward	73,796,200

FY 2023 adjustments are as follows:

FY 2023 CSF Adjustment

The budget includes a decrease of \$(30,500,800) in FY 2023 to reflect the JLBC Staff's calculation of the FY 2023 CSF per pupil amount. The decrease is primarily associated with a reduction in one-time cash balances in the fund that accumulated during the pandemic. This amount consists of:

Education Sales Tax	126,570,600
Classroom Site Fund - Land Trust	5,296,200
Classroom Site Fund - Carry-Forward	(162,367,600)

Background – The CSF is established by A.R.S. § 15-977 and provides additional funding to public schools from the education sales tax and K-12 endowment earnings. Schools must spend these monies on class size reduction, teacher compensation including a base pay and performance pay component, assessment intervention programs, teacher development, dropout prevention

programs, teacher liability insurance premiums, or student support services.

Expenditure Authority does not affect the department's access to funding from the education sales tax or land trust endowment earnings, as a General Appropriation Act footnote allows the department to spend whatever funding is available.

Instructional Improvement Fund

The budget includes \$54,425,700 from Instructional Improvement Fund Expenditure Authority in FY 2023 for the Instructional Improvement Fund. This amount is unchanged from FY 2022.

The Instructional Improvement Fund (IIF) is established by A.R.S. § 15-979 and receives shared revenues from Indian gaming, as authorized by Proposition 202 from the 2002 General Election. IIF monies are distributed to school districts, charter schools and the Arizona State Schools for the Deaf and the Blind based on their student counts. Up to 50% of the monies in the fund may be expended for teacher compensation increases and class size reduction, while the remaining monies must be allocated to dropout prevention programs and instructional improvement programs, including programs to develop minimum reading skills for students by the end of third grade.

Property Tax Relief

Additional State Aid

The budget includes \$510,093,700 from the General Fund in FY 2023 for Additional State Aid. FY 2023 adjustments are as follows:

Increase Homeowner's Rebate Percentage to 50%

The budget includes an increase of \$30,000,000 from the General Fund in FY 2023 to increase the Homeowner's Rebate Percentage from 47.19% of the QTR in FY 2022 to 50.0% of the QTR in FY 2023. This change was previously enacted by section 1 of the FY 2022 Omnibus Tax bill (Laws 2021, Chapter 412). The 3-year spending plan associated with the enacted FY 2022 budget included \$30,000,000 from the General Fund for this change in FY 2023.

Decrease Commercial Assessment Ratio

The budget includes an increase of \$4,400,000 from the General Fund in FY 2023 for increased Additional State Aid Costs associated with a decrease in the assessment ratio for commercial property from 18.0% in FY 2022 to 17.5% in FY 2023. This change was previously enacted by section

10 of the FY 2022 Omnibus Tax Bill, which decreases the commercial property assessment ratio by (0.5)% increments each year until it reaches 16.0% for FY 2026 and each year thereafter. The 3-year spending plan included \$4,400,000 for this change in FY 2023.

Laws 2022, Chapter 171 further reduces the commercial assessment ratio to 15.5% in FY 2027 and 15.0% in FY 2028.

New Homes

The budget includes an increase of \$15,063,400 from the General Fund in FY 2023 for increased Additional State Aid costs associated with new home construction. The \$15,063,400 estimate assumes that Class 3 properties (owner occupied homes) will account for 50% of statewide property tax growth from new construction in FY 2023.

Background – The Additional State Aid program funds the Homeowner's Rebate and any portion of a homeowner's primary property taxes for all taxing jurisdictions combined (not just schools) that exceeds 1% of the full cash value of their home (the "1% Cap").

The "1% cap" pertains to Article IX, Section 18 of the State Constitution, which caps Class 3 primary property taxes at no more than 1% of a home's full cash value and was added to the State Constitution in 1980. It applies any time a homeowner's net combined primary property tax rate for all taxing jurisdictions combined exceeds \$10 per \$100 of NAV even after the Homeowner's Rebate is applied.

The 1% cap historically has been implemented by having the state backfill any primary property tax costs for homeowners that exceed the 1% cap, rather than by requiring all taxing jurisdictions in an area (such as cities, counties, school districts and community colleges) to coordinate their respective primary property tax rates to keep their combined primary rate below \$10 per \$100 of NAV. Related language in the State Constitution, however, does not specify a mechanism for enforcing the 1% cap.

The FY 2019 Revenue BRB (Laws 2018, Chapter 283) required school district desegregation programs to be funded with secondary rather than primary property taxes starting in FY 2019. This reduced 1% cap costs in FY 2019 because the 1% cap does not apply to secondary property taxes. Primary property taxes for desegregation programs accounted for the majority of 1% cap costs prior to FY 2019.

In July 2019, the Arizona Superior Court ruled in litigation filed by the Pima County and Tucson Unified School District (TUSD) that Chapter 283 violated the state's responsibility to establish a property tax system compliant with the 1% cap provision in the State Constitution. In August 2021, the Arizona Court of Appeals reversed the Superior Court decision. The Court stipulated in the ruling that the state is not responsible for covering the costs of the 1% cap in school districts with a desegregation levy. In such jurisdictions, the school district would need to either 1) reduce its desegregation levy such that district residents no longer have primary property tax expenses that exceed the 1% cap or 2) cover desegregation expenses through a voter-approved override. The latter levies are exempt from the 1% cap requirement.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$20,427,100 and 24.4 FTE Positions in FY 2023 for Accountability and Achievement Testing. These amounts consist of:

General Fund	13,427,100
Education Sales Tax Fund	7,000,000

FY 2023 adjustments are as follows:

One-Time Funding

The budget includes a decrease of \$(1,000,000) from the General Fund in FY 2023 to partially continue one-time funding for ADE's achievement testing contracts. The FY 2022 budget provided one-time funding of \$5,000,000 for these contracts. The FY 2023 budget continues that funding in FY 2023 on a one-time basis, but at a level of \$4,000,000.

Statewide Adjustments

The budget includes an increase of \$3,800 from the General Fund in FY 2023 for statewide adjustments.

Background – This line item funds costs of developing, administering and scoring achievement tests adopted and implemented by the State Board of Education pursuant to A.R.S. § 15-741. It includes the following exams in FY 2022:

- Arizona Academic Standards Assessment (AASA), which assesses proficiency in reading, writing and math. Pupils in grades 3 through 8 take an English and language arts and math exam administered annually, while High School pupils instead take the ACT Aspire exam in grade 9 and the ACT in grade 11.

Under the Menu of Assessments (MOA) program established by A.R.S. § 15-741.02, local education agencies(LEAs)may opt to replace the ACT exam for high school pupils with a different nationally recognized exam. For FY 2022, however, the State Board of Education has not approved any MOA exams.

- AzSCI, which assesses proficiency in science in grades 5, 8, and 11. Pupils are not required, however, to meet or exceed the science standards tested by the exam.
- Multi-State Alternative Assessment (MSAA), which assesses proficiency in English and language arts, math, and science for students with cognitive disabilities.

Students who are English Language Learners (ELL) must also take the Arizona English Language Learner Assessment (AZELLA). The costs of administering the AZELLA exam, however, are funded in the English Learner Administration line item.

Adult Education

The budget includes \$21,493,400 and 3 FTE Positions from the General Fund in FY 2023 for Adult Education. FY 2023 adjustments are as follows:

Establish New Adult Education Programs

The budget includes an increase of \$16,620,000 from the General Fund in FY 2023 to establish 3 new adult education programs established in the K-12 budget bill (Laws 2022, Chapter 317). A General Appropriation Act footnote stipulates that the distribution of the increase is as follows:

- \$4,620,000 is for the Continuing High School and Workforce Training Program established in A.R.S. § 15-217.01. The program provides \$7,700 per student to districts and charter schools that contract with a nonprofit organization to provide adults with alternative study services that lead to a high school diploma and industry-recognized credentials. No more than 600 students may participate in the program in FY 2023.
- \$6,000,000 is for deposit in the Adult Workforce Diploma Program Fund established in A.R.S. § 15-217.02. The Adult Workforce Diploma Program is established to assist adults in earning a high school diploma and earning career and technical skills in a campus-based, online, or blended format. Payments to providers range from \$250 to \$1,000 per program milestone completed by participating students.
- \$6,000,000 is for deposit in the Community College Adult Education Workforce Development Program

Fund established in A.R.S. § 15-217.03. The Community College Adult Education Workforce Development Program authorizes Community College Districts to establish programs for adults to provide a high school diploma or high school equivalency diploma and an industry-recognized credential or community college degree. Participating community college districts may receive up to \$3,000 per full-time student and may use a portion of the monies to provide support services to participating adults, such as transportation and child care.

Statewide Adjustments

The budget includes an increase of \$5,600 from the General Fund in FY 2023 for statewide adjustments.

The 3 new programs described above are in addition to the existing Adult Education program in ADE, which 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 2022, 26 school districts, community colleges, counties and community-based organizations are operating state-funded Adult Education programs. For FY 2020 (latest data available), the program served 11,340 participants.

The program is also expected to receive an estimated \$15,554,500 in federal funding in FY 2022. Its federal monies are subject to non-supplanting and maintenance-of-effort requirements stipulated in federal law.

Adult Education and Workforce Development Administration

The budget includes \$250,000 and 1 FTE Position from the General Fund in FY 2023 for Adult Education and Workforce Development Administration. FY 2023 adjustments are as follows:

Administrative Funding Increase

The budget includes an increase of \$250,000 and 1 FTE Position from the General Fund in FY 2023 for ADE's administrative expenses associated with the establishment of the Continuing High School and Workforce Training program, The Adult Workforce Diploma Program, and the Community College Adult Education Workforce Development Program. The 3-year spending plan associated with the enacted FY 2023 budget assumes the administrative allocation will be reduced to \$150,000 in FY 2025.

Alternative Teacher Development Program

The budget includes \$500,000 from the General Fund in FY 2023 for an Alternative Teacher Development Program. This amount is unchanged from FY 2022.

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

Arizona Empowerment Scholarship Account Administration

The budget includes \$4,426,800 and 52 FTE Positions from the General Fund in FY 2023 for Arizona Empowerment Scholarship Account Administration. FY 2023 adjustments are as follows:

ESA Eligibility Expansion

Laws 2022, Chapter 388 appropriates an additional \$2,200,000 and 26 FTE Positions from the General Fund in FY 2023 for ESA administrative workload increases associated with the expansion of eligibility for the ESA program to all children in Arizona who are eligible to attend a public school in this state.

Statewide Adjustments

The budget includes an increase of \$50,400 from the General Fund in FY 2023 for statewide adjustments.

This line item funds administrative costs of the Arizona Empowerment Scholarship Account program. It includes staff for a call center, case managers, accounting staff, marketing, and information technology expenses.

Arizona English Language Learner Fund

The budget includes \$4,960,400 from the General Fund in FY 2023 for the Arizona English Language Learner Fund. This amount is unchanged from FY 2022.

A.R.S. § 15-756.04 establishes the Arizona English Language Learner Fund for distribution of monies to school districts and charter schools for instruction to English language learners that supplements monies received via the English Language Learner Group B weight. The department distributed \$7,254,100 to public schools from the fund in FY 2021, including unspent prior year monies.

Childhood Trauma Awareness and Prevention Training Grants

The budget includes \$100,000 from the General Fund in FY 2023 for Childhood Trauma Awareness and Prevention Training Grants. FY 2023 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$100,000 from the General Fund in FY 2023 to provide one-time funding for Childhood Trauma Awareness and Prevention Training Grants. A General Appropriation Act footnote stipulates that ADE may distribute the grants to a nonprofit organization that provides childhood trauma awareness and prevention training to certificated teachers and public school administrators in this state.

Code Writers Initiative Program

The budget includes \$1,000,000 from the General Fund in FY 2023 for the Code Writers Initiative Program. FY 2023 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2023 to provide one-time funding for the Code Writers Initiative Program established in A.R.S. § 15-249.17. The program will provide competitive grants to schools that instruct Native American students in computer code writing.

College Credit by Examination Incentive Program

The budget includes \$7,472,100 from the General Fund in FY 2023 for the College Credit by Examination Incentive Program (CCEIP). This amount is unchanged from FY 2022.

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

College Placement Exam Fee Waiver

The budget includes \$1,265,800 from the General Fund in FY 2023 for a College Placement Exam Fee Waiver. This amount is unchanged from FY 2022.

This line item funds out-of-pocket expenses for college placement exams taken by students who are FRPL-eligible. The funding is sufficient to cover such costs for an estimated 19,044 FRPL-eligible students in FY 2023.

Computer Science Professional Development Program

The budget includes \$1,000,000 from the General Fund in FY 2023 for a Computer Science Professional Development Program. This amount is unchanged from FY 2022.

The program is authorized by A.R.S. § 15-249.12, which also establishes the Computer Science Professional Development Program Fund (CSPDPF). It requires the department to distribute program grants on a first-come, first-served basis to schools that previously did not provide high school computer science instruction. It also requires the second half of state General Fund funding for the program each year to be matched with private monies or in-kind donations and establishes reporting requirements for the program.

CTED Completion Grants

The budget includes \$1,000,000 from the General Fund in FY 2023 for CTED Completion Grants. This amount is unchanged from FY 2022.

A footnote in the General Appropriation Act stipulates that program monies are intended to help fund program completion for students who complete at least 50% of a CTED program before graduating from high school and who successfully complete the program after graduating from high school. The department shall award grant funding only after an eligible student has successfully completed a CTED program. If the appropriated amount is insufficient to fund all grant requests from CTEDs, the department shall reduce grant amounts on a proportional basis to cap total statewide allocations at \$1,000,000. Program funding is non-lapsing for 1 year beyond the budget year. The budget continues a footnote that makes the program's appropriation non-lapsing through the end of the following fiscal year (FY 2024).

CTED Industry Credential Incentive Program

The budget includes no funding in FY 2023 for the CTED Industry Credential Incentive Program. FY 2023 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2023 to eliminate one-time funding for the CTED Industry Credential Incentive Program. The FY 2020 budget provided one-time funding for this program in FY 2021 and FY 2022.

Background – The FY 2020 K-12 Education BRB established a new CTED Industry Credential Incentive Program (A.R.S. § 15-249.15) that provides awards of up to \$1,000 per student to a student's school district, charter school or CTED if the student obtains an eligible CTE certification, credential, or license through a CTE program prior to graduation. The awards will be provided only for CTE certifications related to "high demand" occupations.

CTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2023 for CTED Soft Capital and Equipment. This amount is unchanged from FY 2022.

The line item provides additional funding to small CTEDs for soft capital and equipment. A footnote in the General Appropriation Act requires the department to distribute the appropriated amount to CTEDs with fewer than 2,000 ADM pupils on a pro rata basis for soft capital and equipment expenses. The budget continues this footnote for FY 2023.

Early Literacy

The budget includes \$12,000,000 from the General Fund in FY 2023 for Early Literacy. This amount is unchanged from FY 2022.

The program is authorized by A.R.S. § 15-249.09, which establishes the Early Literacy Grant Program Fund (ELGPF) to provide support to improve reading skills, literacy and proficiency for students in Kindergarten through 3rd Grade.

Education Learning and Accountability System

The budget includes \$5,339,800 and 24.2 FTE Positions from the General Fund in FY 2023 for the Education

Learning and Accountability System (ELAS) line item. FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$24,400 from the General Fund in FY 2023 for statewide adjustments.

Background – The monies in this line item are for continued maintenance and operation of ELA, which ADE uses 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). (*See the ADOA – Automation Projects Fund narrative*)

English Learner Administration

The budget includes \$6,538,800 and 13.5 FTE Positions from the General Fund in FY 2023 for English Learner Administration. FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$21,900 from the General Fund in FY 2023 for statewide adjustments.

Background - 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 (*See FY 2011 and FY 2020 Appropriations Reports for history.*)

Extraordinary Special Education Needs Fund Deposit

The budget includes no funding in FY 2023 for an Extraordinary Special Education Needs Fund Deposit. FY 2023 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2023 to remove one-time funding for a deposit in the Extraordinary Special Education Needs Fund.

Background - School districts and charter schools may apply for grants from the Extraordinary Special Education Needs Fund established in A.R.S. § 15-774 if they have pupils enrolled in special education for whom the district or charter school has not received sufficient funding for all services needed by the child. Eligibility for grants is limited to school districts and charter school with pupils

receiving special education incurring costs of at least 3 times the statewide per pupil funding average. If monies in the fund are insufficient to cover the cost of all claims submitted, ADE shall prioritize claims based on the difference between the total costs for the child and the total funding the district or charter has received for the child. ADE is required to report data on claims submitted to the fund by December 15th annually.

Foster Home Youth Transitional Housing

The budget includes \$10,000,000 from the General Fund in FY 2023 for Foster Home Youth Transitional Housing. FY 2023 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$10,000,000 from the General Fund in FY 2023 to provide a one-time distribution to the East Valley Institute of Technology (EVIT) for a transitional housing unit. A General Appropriation Act footnote stipulates that EVIT shall use the monies to construct and furnish a 64-bed transitional housing unit for foster youths who are 17-21 years of age and who need stable housing to obtain a high school diploma or GED and are earning an industry certification in a program offered by EVIT.

Geographic Literacy

The budget includes \$100,000 from the General Fund in FY 2023 for Geographic Literacy. This amount is unchanged from FY 2022.

Based upon a footnote, the program funds a statewide geographic alliance for strengthening geographic literacy in this state.

Gifted Assessments

The budget includes \$850,000 from the General Fund in FY 2023 for Gifted Assessments. This amount is unchanged from FY 2022.

Monies in this line item are used for a contract between ADE and a vendor to administer a gifted screening assessment that is available to all 2nd graders in Arizona public schools at no charge. This funding was previously labeled as one-time in FY 2022. The budget continues this funding in FY 2023 and designates the \$850,000 as an ongoing expense.

Invest in Postsecondary Success Program Fund Deposit

The budget includes \$1,000,000 from the General Fund in FY 2023 for an Invest in Postsecondary Success Program Fund Deposit. FY 2023 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$1,000,000 from the General Fund in FY 2023 to provide a one-time deposit in the Invest in Postsecondary Success Program Fund established in A.R.S. § 15-249.18. ADE shall use monies in the fund to contract with a nonprofit vendor that establishes college match savings accounts in which a student's contributions are matched by \$8 for each dollar the student deposits per academic year.

Jobs for Arizona Graduates

The budget includes \$100,000 from the General Fund in FY 2023 for a Jobs for Arizona Graduates program. This amount is unchanged from FY 2022.

The budget continues a footnote stipulating that the department shall use the amount appropriated to the program to issue a grant to a nonprofit organization. The program annually provides approximately 1,300 Arizona students with college and career readiness services as well as interventions for students at risk of dropping out of high school.

Office of Indian Education

The budget includes \$5,000,000 from the General Fund in FY 2023 for the Office of Indian Education. FY 2023 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$5,000,000 from the General Fund in FY 2023 to provide a one-time distribution to the Office of Indian Education. A General Appropriation Act footnote stipulates that the monies are non-lapsing. A.R.S. § 15-244 stipulates that the Office shall provide technical assistance to school and Indian nations on curricula and instructional materials to meet the educational needs of Native American pupils.

Onetime Electronic Incident Prevention Programs

The budget includes \$150,000 from the General Fund in FY 2023 for Onetime Electronic Incident Prevention Programs. FY 2023 adjustments are as follows:

One-Time Funding

The budget includes an increase of \$150,000 from the General Fund in FY 2023 for onetime electronic incident prevention programs. A General Appropriation Act footnote stipulates that ADE shall use the monies to provide school safety grants to schools to procure and implement an electronic incident prevention program.

School Safety Program

The budget includes \$81,932,100 and 4 FTE Positions in FY 2023 for the School Safety program. These amounts consist of:

General Fund	74,132,100
Education Sales Tax	7,800,000

FY 2023 adjustments are as follows:

School Resource Officer Grants

The budget includes an increase of \$50,000,000 from the General Fund in FY 2023 for additional School Resource Officer (SRO) grants. A General Appropriation Act footnote stipulates that ADE shall first distribute monies to schools that are on the waiting list to receive funding to place school resource officers on school campuses. If the cost of funding all SRO grants on the waiting list is less than \$50,000,000, ADE may use the remaining monies for grants to schools to place school counselors and social workers on school campuses.

Statewide Adjustments

The budget includes an increase of \$6,900 from the General Fund in FY 2023 for statewide adjustments.

Background – The School Safety Program established in A.R.S. § 15-154 has existed in Arizona since FY 1995. (See the FY 2015 Appropriations Report for program history.) The program allows schools to apply for grant monies to support the costs of placing school resource officers (SROs), juvenile probation officers, school counselors, and school social workers on school campuses. Funding is allocated annually by the Department of Education subject to review and approval by the State Board of Education pursuant to A.R.S. § 15-154. Expenditure Authority does not affect the department’s access to funding from the Education Sales Tax as it may spend whatever funding is available.

School district and charter schools receive funding for up to a 3-year period and may annually submit a modified spending plan if they are approved for a grant. The department opened the current funding cycle in FY 2020. In December 2019, ADE received approval from SBE to disburse the grant amounts for FY 2020, which is funding

116 SROs, 148 school counselors and 118 social workers annually through FY 2022.

State Block Grant for Vocational Education

The budget includes \$11,628,100 and 27 FTE Positions from the General Fund in FY 2023 for the State Block Grant for Vocational Education. FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$51,800 from the General Fund in FY 2023 for statewide adjustments.

Background – The program provides block grants to school districts and charter schools that have Career and Technical Education (CTE) programs. ADE also receives federal funding each year for CTE programs pursuant to the Carl D. Perkins Vocational and Technical Education Act of 2006, most of which is passed on to local CTE programs. For FY 2022, the department will receive an estimated \$32,635,500 in Perkins funding. Perkins funding is subject to a federal maintenance-of-effort (MOE) provision that requires a state to continue to spend at least as much on CTE in a given fiscal year as it did in the prior fiscal year.

Student Level Data Access

The budget includes \$350,000 from the Department of Education Empowerment Scholarship Account Fund in FY 2023 for Student Level Data Access. This amount is unchanged from FY 2022.

This line item provides funding for ADE's costs associated with providing student level data access pursuant to A.R.S. § 15-1043, which requires ADE to allow access to student level data for county school superintendents, the State Board of Education, and the State Board of Charter Schools.

Teacher Certification

The budget includes \$2,462,900 and 22.9 FTE Positions in FY 2023 for Teacher Certification. These amounts consist of:

General Fund	179,500
Teacher Certification Fund	2,283,400

FY 2023 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$59,900 from the Teacher Certification Fund in FY 2023 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.

Teacher Professional Development Pilot

The budget includes no funding in FY 2023 for a Teacher Professional Development Pilot Program. FY 2023 adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(400,000) from the General Fund in FY 2023 to remove one-time funding for the Teacher Professional Development Pilot.

The FY 2020 K-12 Education BRB extended the pilot program through July 1, 2023. It also allows the department to retain up to 3% of program monies for administration. Chapter 284 requires the pilot program to issue scholarships or grants, or both, on a competitive basis that would support certificated teachers in gaining additional credentials and certifications at a regionally or nationally accredited public or private institution to teach math, science, technology, engineering or career and technical education in a public school.

Program scholarships and grants may not exceed \$2,000 per applicant. Recipients shall agree to teach in an Arizona public school for at least 3 additional years after completing their professional development program. If that commitment is not met, the recipient shall be required to fully pay back their scholarship.

On or before November 1 of each year of the pilot program the department shall submit to the Governor, President of the Senate and Speaker of the House of Representatives a report that summarizes the results of the pilot program. In its November 2021 report, ADE states that a total of 119 scholarships were awarded under the pilot program between August 2019 and October 2021. Scholarship disbursements over the same time period totaled \$442,100.

Tribal College Dual Enrollment Program

The budget includes \$325,000 from the Tribal College Dual Enrollment Program Fund in FY 2023 for the Tribal College Dual Enrollment Program. This amount is unchanged from FY 2022.

A.R.S. § 15-244.01 establishes the Tribal College Dual Enrollment Program Fund and authorizes it to annually receive 15% of unclaimed lottery prize monies up to \$325,000, subject to legislative appropriation, pursuant to A.R.S. § 5-568, plus any other appropriations, gifts, grants, devices and other contributions. The fund compensates tribal colleges for tuition and fees that they waive for high school students who are dual enrolled in tribal college classes.

Other Issues

This section includes information on the following topics:

General Issues

- FY 2022 Adjustments
- Statutory Changes
- Long-Term Budget Impacts

Ballot Proposition

- Endowment Earnings
- Proposition 123 Triggers
- Aggregate Expenditure Limit
- Proposition 208
- Education Sales Tax

Basic State Aid

- Basic State Aid Formula Description

Information on these various issues is as follows:

FY 2022 Adjustments

The budget assumes that ADE's General Fund expenses associated with Basic State Aid will be \$(389,100,000) lower than the original FY 2022 appropriation. The estimated surplus is based on 3 factors:

- \$(130,000,000) is for lower-than-budgeted district Transportation Support Level (TSL) expenses as a result of reduced route miles during the COVID-19 pandemic. The Basic State Aid formula is calculated based on route miles from the prior year, so FY 2022 formula allocations are based on FY 2021 route miles, which were (55)% lower in comparison with FY 2020.
- \$(20,000,000) is for lower-than-budgeted District Additional Assistance (DAA). The decrease is based on district enrollment declines that occurred during FY 2021 since DAA is based on prior year rather than current year student counts. The enacted budget did not include any savings in FY 2022 associated with prior year enrollment declines.

- \$(239,100,000) is for lower-than-budgeted current year (FY 2022) student counts. As of June 30, ADE computed reported unweighted student counts of 1,107,751, or (27,177) less than the student count assumed in the enacted FY 2022 budget.

The budget does not, however, reduce ADE's original FY 2022 appropriation to account for the projected surplus. As a result, the \$(389,100,000) is expected to be accounted for in ADE's General Fund reversion for FY 2022.

Statutory Changes

The K-12 Education budget bill (Laws 2022, Chapter 317) makes the following statutory changes:

Formula Requirements

- As permanent law, increases the base level (A.R.S. § 15-901B2), the transportation funding levels (A.R.S. § 15-945A5) and the charter school "Additional Assistance" amounts (A.R.S. § 15-185B4) by 2.0% for standard inflation. Provides an additional 5.88% increase to the Base Level over and above the regular inflation adjustment in FY 2023 for a total adjustment of 8.76%. Results in an FY 2023 Base Level of \$4,775.27.
- As permanent law, increase the Group B weight for children with developmental delays, emotional disabilities, mild intellectual disabilities, a specific learning disability, a speech language impairment, or other health impairments from 0.093 to 0.292 (increase of \$950 per pupil).
- As permanent law, establish new Group B weight in Basic State Aid formula of 0.018 (approximately \$86 per pupil) for children eligible for the federal Free- and Reduced Price Lunch (FRPL) program.
- As permanent law, eliminate the 1.25% increase to the Base Level for school districts associated with Additional Monies for Teacher Compensation established in A.R.S. 15-952.
- As permanent law, allocates \$47,900,000 to increase District Additional Assistance (DAA) per pupil formula allocations by an average of \$55 per pupil. The adjustment will increase the General Fund the DAA per pupil formula amounts by 11.44% in FY 2023.
- As permanent law, allocates \$12,100,000 to increase Charter Additional Assistance (CAA) per pupil formula allocations by an average of \$55 per pupil. The adjustment will result in a 2.62% increase above regular inflation (for total increase of 4.62%) in FY 2023.
- As permanent law, allow county jail education programs to receive state aid for inmates ages 18-21

who do not have a disability and do not have a high school diploma or general equivalency diploma.

Results-Based Funding

- As session law, continue to notwithstanding A.R.S. § 15-249.08 to fund Results-Based Funding in FY 2023 as follows:
 - \$225 per pupil to schools with statewide assessment scores in the top 13% statewide
 - \$225 per pupil to schools with statewide assessment scores between the top 13% and 27% among schools with at least 60% FRPL-eligibility
 - \$400 per pupil to schools with statewide assessment scores in the top 13% among schools with at least 60% FRPL-eligibility
 - \$400 per pupil for alternative schools in the top 27% among schools with at least 60% FRPL-eligibility.

Other

- As permanent law, updates the Qualifying Tax Rate cited in A.R.S. § 41-1276 to reflect the Truth in Taxation rates established for FY 2023.
- As permanent law, eliminate the State Equalization Tax Rate.
- As permanent law, establish the Code Writers Initiative Program within ADE to provide competitive grants to be used for computer code writing instruction for Native American students. Requires grantees to report to the President of the Senate, the Speaker of the House, the Indian Advisory Council, and the Department of Education on their use of the grants by September 1 annually.
- As permanent law, require SBE, in cooperation with ADE, to adopt performance measures for adult education and workforce development programs in Arizona by July 1, 2024.
- As permanent law, establishes the Continuing High School and Workforce Training Program within the State Board of Education to provide adults with alternative study services that lead to the issuance of a high school diploma and industry-recognized credentials. ADE shall administer the program. SBE shall authorize eligible service providers that have established a partnership with a school district or charter school that is not otherwise receiving Basic State Aid funding for participating adult students. Participating schools shall receive \$7,700 per student. Total participation is capped at 600 students in FY 2023, 1,000 students in FY 2024, and 1,400 students in FY 2025. If the number of program students exceeds the participation thresholds, ADE shall prioritize funding for programs demonstrating the highest performance.
- As permanent law, require ADE to submit a report to the Governor, the President of the Senate, and the

Speaker of the House, and SBE by December 15, 2025 and each year thereafter evaluating the effectiveness of the Continuing High School and Workforce Training Program.

- As permanent law, establishes the Adult Workforce Diploma Program within the State Board of Education (SBE) to individuals 21 years or older to earn a high school diploma and employment skills. ADE shall administer the program. Providers may furnish services in a campus-based, online, or blended format.
- As permanent law, establishes the Adult Workforce Diploma Program Fund to be administered by ADE. The fund shall consist of legislative appropriations, gifts, grants, and other donations and is non-lapsing. Monies in the fund shall be used to make payments to approved providers in the Adult Workforce Diploma Program of \$1,000 per recipient that earns a high school diploma and lower awards for other specified program milestones. ADE shall distribute the full award amounts on a first-come-first-serve basis.
- As permanent law, require SBE, in consultation with ADE, to approve qualified program providers in the Adult Workforce Diploma Program by October 15 annually. Establishes reporting requirements for approved program providers and stipulates that SBE shall revoke an approved provider's authorization after 2 years if the provider that does not achieve a graduation rate of at least 50% or has an average cost per student that exceeds \$7,000.
- As permanent law, establishes the Community College Adult Education Workforce Development Program within SBE, to be administered by ADE. The program shall provide adult learners with education programs and support services to adult learners that lead to both a high school diploma and an industry-recognized credential or community college degree. Support services may include transportation assistance, child care, college and career counseling, and job placement assistance.
- As permanent law, establishes the Community College Adult Education Workforce Development Program Fund to be administered by ADE. The fund shall consist of legislative appropriations, gifts, grants, and other donations and is non-lapsing. Monies in the fund shall be used to make payments to Community Colleges that offer a high school diploma and that provide workforce training leading to industry recognized credentials. Stipulates that payments shall be up to \$3,000 per full-time program participant and may be distributed proportionally among program providers based on their number of enrolled adult students.
- As permanent law, requires community colleges participating in the Community College Adult Education Workforce Development Program to submit a report by October 30 annually to ADE that details the number of participants, the completion rate and average progress toward a high school degree, the number of industry-recognized credentials and community college credits earned, and other specified information. ADE shall compile and submit the reports to the Governor, the Speaker of the House, the President of the Senate, and SBE by December 15 annually.
- As permanent law, establishes the Arizona Empowerment Scholarship Accounts Parent Oversight Committee. The committee would consist of 6 parents of children participating in the ESA program. The President of the Senate, the Speaker of the House, the Senate Minority leader, and the House Minority leader would each have 1 appointment to the Committee. The Governor would have 2 appointments to the committee. The committee shall review ADE's administration of the ESA program.
- As permanent law, establishes the Invest in Postsecondary Success Program within ADE. Requires the department to contract with a nonprofit vendor that provides college match savings accounts for students that match each dollar saved by the student with \$8 and that meets other eligibility criteria. Establishes the Invest in Postsecondary Success Program Fund consisting of legislative appropriations. ADE may use monies in the fund for administrative costs and distributions to the contracted vendor. Monies in the fund are non-appropriated and non-lapsing.
- As session law, allows schools districts to revise their FY 2023 primary and secondary property tax rates prior to August 1, 2022 to allow school districts to account for legislatively-enacted K-12 funding changes that occur after June 20, 2022.
- As session law, continue stating that it is the intent of the Legislature and Governor that school districts increase the total percentage of classroom spending in the combined categories of instruction, student support and instructional support as defined by the Auditor General.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$169,107,300 in FY 2024 above FY 2023 and \$309,571,900 in FY 2025 above FY 2024. These estimates are based on:

- 0.2% ADM growth (unweighted) in FY 2024 and 0.5% growth FY 2025.

- GDP inflators of 2.0% for FY 2024 and FY 2025. Statute funds the lesser of 2% or the actual rate.
- New construction NAV growth of 2.15% for FY 2024 and 2.08% for FY 2025.
- General Fund decreases of \$(15,070,100) in FY 2024 and \$(17,148,100) in FY 2025 for higher endowment earnings.
- An increase of \$4,600,000 each of FY 2024 and FY 2025 for Homeowner's Rebate expenses associated with a reduction in the assessment ratio for commercial property by 0.5% each year pursuant to Laws 2021, Chapter 412.
- As provided by the 3-year spending plan in the FY 2022 budget, an increase of \$8,780,000 in FY 2024 to add ongoing funding for CTED certification exam fee reimbursement (\$1,000,000), an additional 25 literacy coach FTE Positions (\$3,100,000), a kindergarten entry assessment (\$1,500,000), dyslexia screening and training (\$1,280,000), a teacher reading instruction exam (\$1,000,000), the Jobs for Arizona Graduates program (\$400,000), and the Alternative Teacher Development Program (\$500,000). The adjustments replace federal funding from prior years.
- An increase of \$29,000,000 in FY 2024 above FY 2023 and \$29,000,000 in FY 2025 above FY 2024 for further increases to the DAA/CAA formulas pursuant to Sections 127 and 128 of the General Appropriations Act.
- An increase of \$13,000,000 in FY 2024 above FY 2023 and \$37,000,000 in FY 2025 above FY 2024 for additional increases to the Group B weight for FRPL-eligible pupils pursuant to sections 127 and 128 of the General Appropriation Act.
- A decrease of \$(86,250,000) in FY 2024 and \$(100,000) in FY 2025 to remove funding designated as one-time.

Endowment Earnings

In FY 2021, endowment earnings from state trust lands funded \$412,916,200 of Basic State Aid and K-12 Classroom Site Fund costs. Endowment earnings originate from the sale or lease of lands that the federal government deeded to Arizona in the Enabling Act in 1910 to provide support for public functions such as education. Approximately 9.2 million of the original 11.0 million acres of state trust lands remain, of which approximately 87% (8.1 million acres) are for the benefit of public schools.

The rest are designated mostly for the benefit of universities and corrections. K-12 education therefore is by far the largest beneficiary of earnings generated from state trust lands. The State Land Department and State Treasurer both generate endowment earnings from state trust lands. The State Land Department generates

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

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

Expendable monies include ongoing income that the State Land Department generates from leases, permits and interest from sales contracts and a portion of investment returns generated by the State Treasurer.

The portion of Treasurer land trust earnings that is considered expendable is determined by a formula prescribed in the State Constitution, since the value of invested land trust monies fluctuates daily. Prior to voter approval of Proposition 123 in May 2016, the State Constitution required the State Treasurer to distribute annually to each beneficiary (such as public schools) a flat 2.5% of the average monthly market value of the beneficiary’s permanent fund for the immediately preceding 5 calendar years.

The 2.5% factor has been superseded through FY 2025 by a new 6.9% factor, or an increase of 4.4% required by Proposition 123. The 4.4% increase exclusively funds Basic State Aid costs. After FY 2025, Proposition 123 reestablishes the 2.5% factor on a permanent basis. In FY 2021, public schools received \$412,916,200 of expendable land trust monies from the State Land Department and State Treasurer combined. That total included \$54,912,900 from the Land Department and \$358,003,300 from the State Treasurer (see Table 6).

Source	2015 ^{1/}	2021	2022 est	2023 est
Land Department	53.2	54.9	54.9	54.9
Treasurer	76.0	358.0	372.0	402.4
Total	129.2	412.9	426.9	457.4

^{1/} Final year prior to Proposition 123.

Table 7 shows that K-12 endowment earnings are estimated to equal \$426,912,200 in FY 2022 and \$457,359,500 in FY 2023. Of the \$412,916,200 in K-12 expendable earnings generated for FY 2021, \$300,555,000 was used to fund Basic State Aid pursuant to A.R.S. § 37-521B3, and the remaining \$112,361,200 was deposited into the Classroom Site Fund (A.R.S. § 15-977) pursuant to A.R.S. § 37-521B4 (see Table 7). The latter law dedicates to the Classroom Site Fund all growth in K-12 expendable endowment earnings above the FY 2001 level, which was \$72,300,000. (See Education Sales Tax narrative and State Land Trust Program Summary on JLBC website.)

<u>Source</u>	<u>2015</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Basic State Aid	47.3	300.6	309.5	328.9
SFB Debt Service ^{2/}	25.0	0.0	0.0	0.0
Classroom Site Fund	<u>56.9</u>	<u>112.4</u>	<u>117.4</u>	<u>128.5</u>
Total	129.2	412.9	426.9	457.4

Proposition 123 Triggers

Economic Downturn

Proposition 123 allows the state to temporarily suspend future inflation increases during periods of economic slowdown if:

- Sales tax revenue and employment both grow more than 1% but less than 2% in the prior calendar year [if only one factor falls into the 1-2% range, there is no suspension].
- It requires this suspension of inflation adjustments if sales tax revenue and employment both grow less than 1%.

The criteria for suspending the inflation rate have not been met since the enactment of Proposition 123.

Lower Trust Fund Balance

The proposition:

- Allows the state to reduce the 6.9% distribution rate to no less than 2.5% for the following fiscal year if the 5-year average balance of the State Land Trust Permanent Fund fell below the average balance of the preceding 5 years.

The criteria for reducing the distribution rate have not been met since the enactment of Proposition 123.

K-12 Percent of Budget

Beginning in FY 2026, the proposition:

- Allows the suspension of the annual inflation adjustment and a reduction in K-12 funding for the next fiscal year equal to the current year inflation adjustment if K-12 spending surpasses 49% of the total state General Fund appropriations.
- If K-12 spending surpasses 50%, allows the state to suspend the annual inflation adjustment and reduce K-12 funding for the next fiscal year by twice the current year inflation amount.

For FY 2023, budgeted K-12 spending constitutes approximately 43.7% of total state General Fund appropriations. (Please see the FY 2017 Appropriations Report for more information on Proposition 123.)

Aggregate Expenditure Limit

Article IX, Section 21 of the State Constitution establishes an Aggregate Expenditure Limit (AEL) that caps spending for all school districts combined at the FY 1980 statewide level adjusted for subsequent statewide enrollment growth and inflation plus 10%. The AEL does not apply to exempted items like overrides, bonding, or charter school funding.

Pursuant to A.R.S. § 15-911B, the Department of Education computed in November 2021 that budgeted expenditures for school districts collectively were \$1,154,029,000 above the AEL for FY 2022. A.R.S. § 15-911C2 allows the Legislature to authorize statewide school district spending above the AEL for that year with a two-thirds majority vote in both the House of Representatives and Senate. Pursuant to House Concurrent Resolution 2039, the Legislature authorized district expenditures of \$1,154,029,000 above the AEL for FY 2022.

A permanent increase in the AEL would require a voter-approved change to the State Constitution.

Proposition 208 – Education Funding

Proposition 208, approved by voters in the November 2020 general election, would have established a 3.5% income tax surcharge for single taxpayers on their taxable income in excess of \$250,000 and for married persons on their taxable income in excess of \$500,000. Most of these funds would have been distributed to school districts and charter schools.

In August 2021, the Arizona Supreme Court ruled in *Fann v State of Arizona* that the Proposition 208 income tax surcharge is unconstitutional if the tax revenues generated cannot be spent without school districts exceeding the K-12 Aggregate Expenditure Limit. The

Table 8

**Education Sales Tax Monies
(FY 2023 Estimate)
(\$ in Millions)**

EDUCATION SALES TAX REVENUES

<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
Universities	123.3	Receive 12% of monies remaining after distributions to the Superintendent for Basic State Aid is deducted.
Community Colleges	30.8	Receive 3% of monies after BSA distribution.
Tribal Colleges	1.2	Same formula as for community colleges.
Income Tax Credit	<u>25.0</u>	For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	\$180.4	
Basic State Aid Distribution	\$64.1	
Additional School Days	86.3	To add 5 days to K-12 school year (180 days total).
School Safety and Character Education	8.0	\$7.8 million for School Safety (A.R.S. § 15-154) and \$0.2 million for Character Education (A.R.S. § 15-154.01).
School Accountability	7.0	For school accountability pursuant to A.R.S. § 15-241 and § 15-1041.
Failing Schools	1.5	To Failing Schools Tutoring Fund (A.R.S. § 15-241CC).
Classroom Site Fund	<u>744.3</u>	Established by A.R.S. § 15-977. Receives all monies remaining after other distributions are made. Also receives all expendable K-12 endowment earnings above \$72.3 million.
Subtotal - ADE Programs	\$911.1	
Total - Prop 301 Sales Tax	\$1,091.5	
CLASSROOM SITE FUND REVENUES (ALL SOURCES)		
Education Sales Tax (from above)	744.3	
Prop 301/CSF - Land Trust	128.5	
Prop 301/CSF - Carry-Forward	<u>123.3</u>	
Total - Classroom Site Fund	\$996.3^{1/}	

^{1/} Total estimated disbursements reported for FY 2023 in JLBC's Classroom Site Fund memo from March 2022. Amounts may not add due to rounding.

Court remanded the case to the Superior Court to make a determination as to whether Proposition 208 monies would result in an AEL exceedance if they are expended. The Superior Court ruled in March 2022 that it is "more likely than not" that school district budgets would exceed the spending limit in FY 2023 and therefore struck down Proposition 208 in its entirety.

remaining after all other distributions are made. Its share equaled \$744,264,700 (68.2%) of the \$1,091,495,300 of estimated collections for FY 2022 (see Table 8).

Classroom Site Fund

Proposition 301 also amended A.R.S. § 37-521B4 to dedicate to the Classroom Site Fund all growth in K-12 expendable land trust earnings above the amount generated by the State Treasurer and State Land Department combined for FY 2001 (the last year before Proposition 301 took effect), which equaled \$72,300,000. Total estimated available revenues to the CSF for FY 2023 are \$996,341,900 (see Table 8).

Education Sales Tax

Proposition 301, which was passed by voters in November 2000, amended A.R.S. § 42-5010 to increase the state Transaction Privilege Tax (TPT) ("sales tax") rate on most purchases from 5% to 5.6% through FY 2021 to generate more funding for public education.

Starting in FY 2022, Laws 2018, Chapter 74 replaces the additional 0.6% sales tax through June 30, 2041. Pursuant to the FY 2021 K-12 BRB, the \$64,100,000 of 0.6% sales tax monies previously needed for debt service on School Facilities Board bonds authorized by Proposition 301 will be redirected to ADE for the costs of Basic State Aid. All other distributions remain unchanged.

Table 8 shows how education sales tax revenues are earmarked in FY 2023. Laws 2018, Chapter 74 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies

Basic State Aid Formula Description

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

The equalization formula for school districts consists of 3 components: the Base Support Level (BSL), Transportation Support Level (TSL), and District Additional Assistance (DAA). BSL and DAA funding are computed by multiplying specific dollar amounts in statute by a school district's student count, adjusted for various weights. The TSL instead is computed by multiplying specific dollar amounts per route mile in statute by a district's pupil transportation route miles. The sum of the 3 formula components equals what is referred to as a school district's "equalization base," which is its total funding entitlement under the K-12 equalization funding formula.

After a school district's equalization base is determined, its net assessed property value (NAV) is multiplied by the statutory "Qualifying Tax Rate" (QTR) (A.R.S. § 15-971B) to determine the portion of its formula funding that is assumed to come from QTR taxes. This amount is then subtracted from its equalization base.

If the district's combined QTR revenues exceed its equalization base, the district is not entitled to Basic State Aid. If, however, its "local share" funding does not exceed its equalization base, the district receives Basic State Aid funding to make up the difference. The actual local property tax rate for schools may be lower than the QTR (such as if the QTR would raise more than the district's formula funding entitlement), or higher if the district can budget for items outside of its "Revenue Control Limit" (RCL) pursuant to A.R.S. § 15-910.

Basic State Aid is also provided to charter schools, which are schools that do not have geographic boundaries, operate under terms specified in a "charter," and are sponsored by an entity such as the State Board for Charter Schools. The equalization funding formula for charter schools does not include DAA or separate transportation funding and instead consists only of BSL and Charter Additional Assistance (CAA) funding. BSL funding for charter schools is determined under the same formula prescribed for traditional public schools in A.R.S. § 15-943. CAA funding amounts are established separately in A.R.S. § 15-185B4. Charter schools receive all their equalization funding through Basic State Aid, since they do not have authority to generate funding through local property taxes.