

Department of Education

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	229.9	232.9	232.9 ^{1/}
Personal Services	4,877,800	7,956,600	7,956,600
Employee Related Expenditures	1,793,500	3,039,400	3,159,800
Professional and Outside Services	401,100	11,201,900	1,456,900
Travel - In State	8,800	17,900	17,900
Travel - Out of State	15,500	25,500	25,500
Other Operating Expenditures	2,506,700	3,385,500	3,036,000
Equipment	43,100	0	0
OPERATING SUBTOTAL	9,646,500	25,626,800	15,652,700 ^{2/3/}
SPECIAL LINE ITEMS			
Operating Lump Sum Reduction	0	0	(469,700)
Formula Programs			
Basic State Aid	6,710,668,900	7,091,644,500	7,288,548,000 ^{4/-11/}
Onetime Additional Assistance Supplement	0	0	29,000,000 ^{12/ 13/}
Onetime FRPL Weight Supplement	0	0	37,000,000 ^{14/}
Onetime State Aid Supplement	0	300,000,000	0
State Aid Supplement	75,000,000	75,000,000	75,000,000 ^{15/}
Results-Based Funding	68,600,000	0	0
Special Education Fund	36,029,200	36,029,200	36,029,200
Other State Aid to Districts	65,500	983,900	0
Classroom Site Fund	947,936,000	1,018,912,500	1,053,335,300 ^{16/}
Instructional Improvement Fund	41,482,700	80,425,700	80,425,700 ^{17/}
Property Tax Relief			
Additional State Aid	478,210,600	511,613,100	526,653,100
Non-Formula Programs			
Accountability and Achievement Testing	12,604,100	16,442,200	16,444,800 ^{18/-20/}
Adult Education	17,495,000	21,768,900	16,903,200 ^{21/}
Adult Education and Workforce Development Administration	250,100	0	0
Alternative Teacher Development Program	500,000	1,800,000	1,000,000
Arizona Civics Education and Leadership Development Program	0	300,000 ^{22/}	0
Arizona Empowerment Scholarship Account Administration	4,390,300	0	0
Arizona English Language Learner Fund	4,960,400	4,960,400	4,960,400
Arizona Holocaust Education Center	0	0	7,000,000 ^{23/}
Art Consumables	0	7,500,000 ^{24/}	0
Broadband Expansion Fund Deposit	0	2,500,000 ^{25/}	0
Center for High School Success	0	1,000,000	1,000,000
Code Writers Initiative Program	1,000,000	0	0
College Credit by Examination Incentive Program	7,472,100	7,472,100	3,772,100
College Placement Exam Fee Waiver	875,600	1,265,800	1,265,800
Computer Science Professional Development Program	1,000,000	1,000,000	1,000,000
CTED Certification Exam Fee Reimbursement	0	1,000,000	1,000,000
CTED Completion Grants	0	1,000,000	1,000,000 ^{26/-28/}
CTED Soft Capital and Equipment	1,000,000	1,000,000	1,000,000 ^{29/}
Dual Enrollment Student Development Fund Deposit	0	3,000,000 ^{30/}	0
Dual Enrollment Teacher Development Fund Deposit	0	0 ^{31/}	0
Early Education and Career Exploration Program	0	5,000,000 ^{32/}	0
Early Literacy	12,000,000	18,880,000	17,386,200
Education Learning and Accountability System	5,447,200	5,446,700	5,470,200

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
English Learner Administration	9,097,200	6,597,000	11,608,800 ^{33/}
Feminine Hygiene Products	0	2,000,000	0
Flagstaff Robotics Program	0	20,000	10,000
Foster Home Youth Transitional Housing	10,000,000 ^{34/}	0	0
Geographic Literacy	100,000	100,000	100,000 ^{35/}
Gifted Assessments	404,000	850,000	850,000
Gila County Jail Education	0	10,000	0
Invest in Postsecondary Success Program Fund Deposit	1,000,000	0	0
Jobs for Arizona Graduates	100,000	500,000	500,000 ^{36/}
Juvenile Detention Centers	0	52,600	0
K-12 Mental Health Telehealth Pilot Program	0	0	2,000,000
K-12 Transportation Formula Study	0	250,000	0
Live, Remote Instructional Courses	0	100,000	100,000
Low Income After School Program Grants	0	0	2,000,000
Nonprofit Education Initiatives	0	100,000	0
Nonprofit Low-Income Assistance	0	500,000	0
Office of Indian Education	56,100	0	0
Onetime Electronic Incident Prevention Programs	43,200	0	0
Onetime School Meal Grants	0	0	3,800,000 ^{37/}
Phoenix Science Education Programs	0	2,500,000	0
Public School Campus Community Gardens	0	100,000	0
Public School Campus Trees	0	300,000	0
School Safety Program	34,198,000	81,992,400	82,010,200 ^{38/ 39/}
Show Low Robotics Program	0	0	10,000
State Block Grant for Vocational Education	11,748,800	11,774,300	11,798,200
Student Level Data Access	357,800	359,000	359,000
Teacher Certification	1,756,200	2,544,600	2,583,100
Teacher Professional Development	0	3,000,000	0
Teacher Professional Development Pilot	37,300	0	0
Tribal College Dual Enrollment Program	110,500	325,000	325,000
Youth Summer Education Program	0	250,000	0
AGENCY TOTAL	8,505,643,300	9,355,796,700	9,338,431,300 ^{40/-43/}

FUND SOURCES

General Fund	7,002,099,600	7,743,579,000	7,676,669,800
<u>Other Appropriated Funds</u>			
Department of Education Empowerment Scholarship Account Fund	357,800	359,000	359,000
Education Sales Tax - Accountability	1,661,700	7,000,000	7,000,000
Permanent State School Fund	328,895,600	342,797,300	357,889,000
Teacher Certification Fund	1,692,300	2,517,700	2,547,000
Tribal College Dual Enrollment Program Fund	110,500	325,000	325,000
SUBTOTAL - Other Appropriated Funds	332,717,900	352,999,000	368,120,000
SUBTOTAL - Appropriated Funds	7,334,817,500	8,096,578,000	8,044,789,800
<u>Expenditure Authority Funds</u>			
Classroom Site Fund	947,936,000	1,018,912,500	1,053,335,300
Education Sales Tax - Basic State Aid	165,337,200	150,380,500	150,380,500
Education Sales Tax - Character Education	167,800	200,000	200,000
Education Sales Tax - Failing Schools Tutoring Fund	302,100	1,500,000	1,500,000
Education Sales Tax - School Safety	15,600,000	7,800,000	7,800,000
Instructional Improvement Fund	41,482,700	80,425,700	80,425,700
SUBTOTAL - Expenditure Authority Funds	1,170,825,800	1,259,218,700	1,293,641,500

	FY 2023 ACTUAL	FY 2024 ESTIMATE	FY 2025 APPROVED
SUBTOTAL - Appropriated/Expenditure Authority Funds	8,505,643,300	9,355,796,700	9,338,431,300
Other Non-Appropriated Funds	28,362,300	33,540,700	33,540,700
Federal Funds	2,420,796,800	2,628,730,900	2,628,730,900
TOTAL - ALL SOURCES	10,954,802,400	12,018,068,300	12,000,702,900

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 90.6 GF and 34.4 OF FTE Positions funded from Special Line Items in FY 2025.
- 2/ 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)
- 3/ 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)
- 4/ Laws 2023, Chapter 133 appropriated \$800,727,700 from the General fund for the K-12 rollover.
- 5/ 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 \$357,889,000 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 2024-2025. (General Appropriation Act footnote)
- 6/ 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)
- 7/ 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)
- 8/ 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)
- 9/ Laws 2022, Chapter 313, Section 128, as modified by Laws 2024, Chapter 209, Section 4, appropriates \$89,000,000 in FY 2025 from the General Fund for ongoing increases to District Additional Assistance (DAA) and Charter Additional Assistance (CAA) and \$29,000,000 from the General Fund in FY 2025 for onetime DAA and CAA supplements.
- 10/ Laws 2022, Chapter 313, Section 128, as modified by Laws 2024, Chapter 209, Section 4, appropriates \$63,000,000 in FY 2025 from the General Fund for ongoing increases to the Free and Reduced-Price Lunch (FRPL) weight and \$37,000,000 from the General Fund in FY 2025 for a onetime FRPL Group B Weight Supplement.
- 11/ The legislature intends that the state general fund appropriation to the department of education for basic state aid be increased by \$29,000,000 in fiscal year 2027-2028 to continue the funding allocated in subsection A, paragraph 2 and subsection B, paragraph 2 of this section on an ongoing basis. The legislature intends that the state general fund appropriation to the department of education for basic state aid be increased by \$37,000,000 in fiscal year 2027-2028 to continue the funding allocated in subsection C, paragraph 2 of this section on an ongoing basis. (FY 2023 General Appropriation Act footnote, as modified by FY 2025 General Appropriation Act)
- 12/ The department of education shall distribute the appropriated amount for the onetime charter additional assistance supplement to charter schools on a proportional basis based on the charter additional assistance funding that each

charter school in this state receives in fiscal year 2024-2025. (FY 2023 General Appropriation Act footnote, as modified by FY 2025 General Appropriation Act)

- 13/ The department of education shall distribute the appropriated amount for the onetime district additional assistance supplement to school districts on a proportional basis based on the district additional assistance funding that each district in this state receives in fiscal year 2024-2025 and increase the budget limits pursuant to section 15-947, Arizona Revised Statutes, accordingly. A school district may budget the monies it receives from the onetime district additional assistance supplement in either the school district's maintenance and operation fund or unrestricted capital outlay fund. (FY 2023 General Appropriation Act footnote, as modified by FY 2025 General Appropriation Act)
- 14/ The department of education shall distribute the appropriated amount for the onetime FRPL group b weight supplement to school districts and charter schools on a pro rata basis using the weighted student count for FRPL pupils for the school district or charter school pursuant to section 15-943, paragraph 2, subdivision (B), Arizona Revised Statutes, and increase the budget limits pursuant to section 15-947, Arizona Revised Statutes, accordingly. A school district may budget the monies it receives from the onetime FRPL group b weight supplement in either the school district's maintenance and operation fund or unrestricted capital outlay fund. (FY 2023 General Appropriation Act footnote, as modified by FY 2025 General Appropriation Act)
- 15/ 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.
- 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 department of education may use the appropriated amount for accountability and achievement testing in fiscal year 2024-2025 for costs of the English language proficiency assessments required by section 15 756.05, Arizona Revised Statutes. (General Appropriation Act footnote)
- 21/ The appropriated amount for adult education includes \$4,000,000 for a onetime allocation to the continuing high school and workforce training program established by section 15-217.01, Arizona Revised Statutes, \$4,000,000 for a onetime deposit in the adult workforce diploma program fund established by section 15 217.02, Arizona Revised Statutes, and \$4,000,000 for a onetime deposit in the community college adult education workforce development program fund established by section 15 217.03, Arizona Revised Statutes. (General Appropriation Act footnote)
- 22/ Laws 2024, Chapter 209, Section 120 clarifies that monies appropriated to the Arizona Civics Education and Leadership Development Fund in FY 2024 are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations through FY 2025. (General Appropriation Act footnote)
- 23/ The department of education shall distribute the appropriated amount for the Arizona holocaust education center line item to the Arizona holocaust education center for a onetime distribution for the creation and operation of the center as a resource for fulfilling the requirements of section 15-701.02, Arizona Revised Statutes. The department of administration shall allot the full amount of the line item on or before August 15, 2024. The department of education shall make the distribution on or before August 15, 2024. This appropriation is exempt from the provisions of section 35 190, Arizona Revised Statutes, relating to lapsing of appropriations. (General Appropriation Act footnote)
- 24/ The FY 2024 budget included a total of \$10,000,000 from the General Fund in FY 2024 for Art Consumables. Laws 2024, Chapter 209, Section 117 reduces this appropriation by \$2,500,000.
- 25/ The FY 2024 budget included a total of \$5,000,000 from the General Fund in FY 2024 for a Broadband Expansion Fund Deposit. Laws 2024, Chapter 209, Section 117 reduces this appropriation by \$2,500,000.
- 26/ 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)

- 27/ 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)
- 28/ 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, 2026. (General Appropriation Act footnote)
- 29/ 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)
- 30/ The FY 2024 budget included a total of \$15,000,000 from the General Fund in FY 2024 for a Dual Enrollment Student Fund Deposit. Laws 2024, Chapter 209, Section 117 reduces this appropriation by \$12,000,000.
- 31/ The FY 2024 budget included \$500,000 from the General Fund in FY 2024 for a Dual Enrollment Teacher Development Fund Deposit. Laws 2024, Chapter 209, Section 117 eliminates this appropriation.
- 32/ Laws 2024, Chapter 209, Section 120 clarifies that monies appropriated to the Early Education and Career Exploration Program Fund in FY 2024 are exempt from the provisions of section 35-190, Arizona Revised Statutes, relating to lapsing of appropriations through FY 2025. (General Appropriation Act footnote)
- 33/ 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)
- 34/ Laws 2025, Chapter 209, Section 1 modifies the footnote for the FY 2023 appropriation for Foster Home Youth Transitional Housing to authorize the transitional housing unit to also serve former foster youths up to age 23 who are pursuing an associates degree.
- 35/ 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)
- 36/ 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)
- 37/ The department of education shall allocate the appropriated amount for onetime school meal grants to school districts and charter schools that participate in the national school lunch program or school breakfast program established under the national school lunch and child nutrition acts (42 United States Code sections 1751 through 1793) for grants to reduce or eliminate copayments that would otherwise be charged to children eligible for reduced-price meals. If the appropriated amount is insufficient to cover the grant awards for all eligible grantees, the department shall reduce each grant proportionately to cover all eligible grantees. (General Appropriation Act footnote)
- 38/ The amount appropriated for the school safety program in fiscal year 2022-2023 pursuant to laws 2022, chapter 313, section 31 included 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 grants for school resource officers 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 to section 15-154, Arizona Revised Statutes. (General Appropriation Act footnote)
- 39/ 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)
- 40/ After review by the joint legislative budget committee, in fiscal year 2024-2025, the department of education may use a portion of its fiscal year 2024-2025 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 2023-2024. (General Appropriation Act footnote)
- 41/ 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)

42/ 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)

43/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Summary

ADE's FY 2025 General Fund spending decreases by \$(66,909,200) or (1.1)% below the final FY 2024 appropriation (including the FY 2024 supplement reductions). The budget includes the following funding changes in FY 2025:

- An increase of \$8,046,900 for a Basic State Aid prior year rebase.
- A decrease of \$(11,357,900) for public school enrollment adjustments.
- An increase of \$106,910,400 for additional Empowerment Scholarship Account (ESA) awards.
- An increase of \$162,016,700 for a 2.0% inflator.
- A decrease of \$(67,120,500) for local property tax growth due to new construction
- A decrease of \$(15,091,700) to offset higher available endowment earnings under Proposition 123.
- Increased Homeowner's Rebate expenses of \$15,040,000.
- An increase of \$37,000,000 for a one-time FRPL Group B Weight supplement.
- An increase of \$29,000,000 for a one-time supplement to the District Additional Assistance (DAA) and Charter Additional Assistance (CAA) formulas.
- A decrease of \$(2,500,000) to eliminate summer ESAs for public school students.
- A decrease of \$(1,500,000) to eliminate the kindergarten entry assessment.
- An increase of \$7,000,000 for a one-time distribution to the Arizona Holocaust Education Center.
- An increase of \$3,800,000 for One-Time School Meal Grants
- A decrease of \$(3,700,000) to reduce College Credit by Examination Incentive Program (CCEIP) payments.
- A decrease of \$(4,870,000) for Adult Education programs.
- A one-time increase of \$5,000,000 for English Language Learner testing contract costs
- A one-time increase of \$2,000,000 for Rural K-12 mental health telehealth pilot programs.
- A one-time increase of \$2,000,000 for low-income after school programs.

- A one-time of \$1,000,000 to continue funding Centers for High School Success
- A decrease of \$(469,700) for an operating lump sum reduction.
- An increase of \$125,200 for statewide adjustments
- A decrease of \$(356,738,600) to remove funding from FY 2024 designated as one-time.

The budget also includes the following supplemental reductions in FY 2024:

- A decrease of \$(12,000,000) to reduce the funding for a deposit in the Dual Enrollment Student Development Fund.
- A decrease of \$(500,000) to reduce the funding for a deposit in the Dual Enrollment Teacher Development Fund.
- A decrease of \$(2,500,000) to reduce funding for a Broadband Expansion Fund Deposit.
- A decrease of \$(2,500,000) to reduce funding for Art Consumables.

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase by \$384,604,000 in FY 2026 compared with FY 2025 and increase by \$175,439,500 in FY 2027 above FY 2026. (See *Other Issues for more information.*)

Operating Budget Lump Sum Reduction

The budget includes a decrease of \$(469,700) from the General Fund in FY 2025 for a lump sum reduction. Agencies receiving a lump sum reduction will apply the reduction to the operating lump sum appropriation in the FY 2026 budget request submittal. Agencies have discretion in how the reduction in spending is achieved. The FY 2026 *Baseline Book* will incorporate the agency's planned reduction into the operating budget display.

Operating Budget

The budget includes \$15,652,700 and 107.9 FTE Positions in FY 2025 for the operating budget. These amounts consist of:

	FY 2025
General Fund	\$13,809,300
Teacher Certification Fund	143,400
Education Sales Tax - Failing Schools	
Tutoring Fund	1,500,000
Education Sales Tax - Character Education	200,000

Adjustments are as follows:

One-Time Funding

The budget includes a decrease of \$(10,000,000) from the General Fund in FY 2025 to remove funding for a one-time increase to ADE's operating budget. A General Appropriation Act footnote stipulates that the \$10,000,000 is non-lapsing until June 30, 2026.

Statewide Adjustments

The budget includes an increase of \$25,900 from the in FY 2025 for statewide adjustments. This amount consists of:

General Fund	35,100
Teacher Certification Fund	(9,200)

(Please see the Agency Detail and Allocations section.)

Formula Programs

Basic State Aid

The budget includes \$7,288,548,000 in FY 2025 for Basic State Aid. This amount consists of:

General Fund	6,780,278,500
Permanent State School Fund	357,889,000
Education Sales Tax - Basic State Aid	150,380,500

The \$7,288,548,000 total does not include local property taxes that will help fund K-12 formula costs for FY 2025, as they are non-appropriated (*see Table 1*).

Table 1
FY 2025 Basic State Aid Formula Summary (estimated)

<u>Sources</u>	
General Fund	\$6,780,278,500
Permanent State School Fund	357,889,000
Education Sales Tax	150,380,500
Local Property Taxes ^{1/}	<u>2,652,161,400</u>
Total	<u>\$9,940,709,400</u>
<u>Uses</u>	
School District Equalization	7,000,238,400
Charter Equalization	2,110,088,400
Empowerment Scholarships	822,030,600
Other Formulas/Miscellaneous	<u>8,352,000</u>
Total	<u>\$9,940,709,400</u>

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

Adjustments are as follows:

Prior Year Base Adjustment

The budget includes an increase of \$8,046,900 from the General Fund in FY 2025 for a prior year base adjustment. The enacted FY 2024 budget assumed that combined General Fund Basic State Aid formula expenses for school districts, charter schools, Empowerment Scholarship Accounts (ESAs), and other K-12 formula programs would reach \$6,598,466,700 in FY 2024.

The \$6,598,466,700 cost assumed total public school Average Daily Membership (ADM) growth would be 0.4% in FY 2024. Through June 2024, ADE reports that actual public school ADM is (1.0)% below final FY 2023 ADM. The enacted FY 2024 budget also assumed total ESA program enrollment of 68,380 and awards of \$625,155,700. Through June 2024, ADE reported that 76,427 pupils were receiving an ESA award disbursement in the fourth quarter and that total disbursements to ESA accounts for the fiscal year totaled \$717,620,200.

With the above forecast adjustments, we estimate the total combined district/charter/ESA enrollment will generate savings of \$(352,200) in FY 2024 relative to the enacted budget. The estimated base adjustment is delineated by formula program in *Table 2*. While basic state aid formula costs are below the original budget on a total funds basis, we estimate that ADE will incur a net General Fund shortfall in Basic State Aid of \$8,046,900, primarily due to lower-than-estimated local property tax offsets. The budget assumes ADE will be able to cover the shortfall within its existing budget due to an estimated \$(8,424,600) surplus in the Homeowner's Rebate program.

Qasimyar Property Tax Litigation

The budget includes no net change for Basic State Aid recalculations associated with property tax judgments in the *Qasimyar v. Maricopa County* litigation. In *Qasimyar vs Maricopa County*, property owners filed a lawsuit in Maricopa County in 2016 alleging that the county made inaccurate property tax assessments of owner-occupied homes (class 3) and rentals/non-primary residence (class 4) because the county failed to classify conversions from owner-occupied status to rental (or vice-versa) as changes in use of the property. The Court concurred with the plaintiffs, resulting in court-ordered property tax refunds totaling \$147,796,700 across school districts in Maricopa County. These refunds will be paid by the Maricopa County Treasurer beginning in FY 2025.

Table 2			
FY 2024 Basic State Aid Formula Base Adjustment (Estimate)			
<u>Sources</u>	<u>FY 2024 Enacted</u>	<u>FY 2024 Revised</u>	<u>Change</u>
General Fund	\$6,598,466,700	\$6,606,513,600	\$8,046,900
Permanent State School Fund	342,797,300	342,797,300	0
Education Sales Tax	150,380,500	150,380,500	0
Local Property Taxes	<u>2,590,507,100</u>	<u>2,582,108,000</u>	<u>(8,399,100)</u>
Total	\$9,682,151,600	\$9,681,799,400	\$(352,200)
<u>Uses</u>			
School District Equalization	6,951,918,000	6,944,796,200	(7,121,800)
Charter Equalization	2,094,366,100	2,007,753,500	(86,612,600)
Empowerment Scholarships	625,155,700	717,620,200	92,464,500
Other Formulas/Miscellaneous	<u>10,711,800</u>	<u>11,629,500</u>	<u>917,700</u>
Total	\$9,682,151,600	\$9,681,799,400	\$(352,200)

Under A.R.S. § 15-915B, school districts may request via a resolution adopted by the school board that ADE recalculate their Basic State Aid for prior years if a tax judgement changes the Net Assessed Value (NAV) that was used to compute the state share of funding for K-12 Basic State Aid formula. These re-calculations would effectively cover the portion of the school district refund obligation associated with property taxes levied to cover Basic State Aid. Section 9 of the FY 2025 Taxation BRB notwithstanding A.R.S. § 15-915B to require ADE to recalculate district state without a school board resolution and submit its estimates to school districts and the Property Tax Oversight Commission on or before August 1, 2024. ADE is also required report its proposed re-calculations to JLBC and OSPB and, subject to JLBC review, adjust state aid accordingly. The JLBC Staff preliminarily estimates that the state aid recalculations associated with *Qasimyar* will increase Basic State Aid costs by \$61,000,000 from the General Fund in FY 2025.

The budget does not, however, increase ADE's Basic State Aid appropriation to account for the cost of the basic state aid recalculation. It instead assumes ADE will be able to cover the \$61,000,000 within its FY 2025 Basic State Aid appropriation. To meet that assumption without a General Fund supplemental would depend upon a number of different factors. For example, total student enrollment would have to decline by (1.1)% instead of growing by 0.2% to cover the cost of the basic state aid recalculation associated with *Qasimyar* without a General Fund supplemental.

Public School Enrollment Adjustments

The budget includes a decrease of \$(11,357,900) from the General Fund in FY 2025 for public school enrollment adjustments. The budget assumes there would be a public school enrollment decline of (0.4)% in FY 2025 compared with FY 2024, which would result in public school ADM of 1,082,095 in FY 2025, or a decrease of (4,013) in comparison with June 2024.

The (0.4)% public school enrollment decline estimate is based on the following assumptions:

- The budget assumes there would be a (0.1)% reduction in base public school enrollment due to demographic trends. The (0.1)% decline is consistent with the Arizona Office of Economic Opportunity medium-series population projections, which assume that Arizona's school-age population (ages 5-17) declines by (0.1)% in calendar year (CY) 2024.
- The budget assumes an additional (0.3)% decline would be associated with students shifting their enrollment from public schools to the ESA program. Through the 3rd quarter of FY 2024, ADE estimates that approximately 47% of students who newly enrolled in the Universal ESA program in FY 2024 were enrolled in a public school in the year preceding their switch to the ESA program.

In FY 2024, the estimated public school enrollment decline of (1.0)% is (1.2)% below the 0.2% growth that we would have been anticipated based on OEO demographic projections, which may indicate that ESA switchers are impacting public school enrollment. The budget assumes that public school enrollment changes would only be (0.3)% below broader demographic trends in FY 2025, as the number of switchers may be higher in FY 2024 since it is the first full year of the availability of universal ESAs (ADE opened universal ESA applications in late September of 2022).

Empowerment Scholarship Account Growth

The budget includes an increase of \$106,910,400 from the General Fund in FY 2025 for enrollment growth in the ESA program. Total ESA enrollment would increase to 82,452 in FY 2025, or an increase of 6,025 above June 2024 enrollment of 76,427. The budget assumes that 82,452 ESA enrollees would be eligible for total awards of \$824,530,600 in FY 2025. The \$824,530,600 is the budget's base estimate for the ESA program before accounting for policy changes that assume savings from limiting funding for applicants in the 4th quarter of the

fiscal year (See "Limit Fourth Quarter ESA Funding" policy issue for more information.)

The 6,025 growth estimate assumes that switchers from public school would represent approximately 48% of ESA enrollment growth while the remaining 52% would be current private schoolers and homeschoolers. The 48% switcher assumption is lower than ADE's estimate that through the third quarter of FY 2024, approximately 61% of new entrants into the universal ESA program in FY 2024 were enrolled in a public school in the year immediately preceding their enrollment in the ESA program.

Given that ESA enrollment growth would continue to include pupils who were not previously funded in a public school, we anticipate that the combined growth rate in the ESA program and public schools would exceed OEO's estimates of growth in the school-age population. As a result, our total K-12 enrollment growth estimate (including both ESAs and public schools) for FY 2025 is 0.2%, or 0.3% above OEO's estimate of a (0.1)% decline. Under the budget assumptions, total enrollment across ESAs and public schools would reach 1,164,547 in FY 2025 (See Table 3).

Fiscal Year	District	Charter	Public Subtotal	ESA	Grand Total	Change
2018	913,665	189,869	1,103,534	5,042	1,108,576	0.9%
2019	906,004	201,757	1,107,761	6,450	1,114,211	0.5%
2020	907,121	208,438	1,115,559	7,781	1,123,340	0.8%
2021	857,139	220,678	1,077,817	9,777	1,087,594	(3.2)%
2022	875,517	220,379	1,095,896	12,049	1,107,945	1.9%
2023	873,827	223,660	1,097,487	53,364	1,150,851	3.9%
2024 est	863,144	222,964	1,086,108	76,427	1,162,535	1.0%
2025 est	852,149	229,946	1,082,095	82,452	1,164,547	0.2%
2026 est	837,191	235,457	1,072,648	89,697	1,162,345	(0.2)%
2027 est	818,804	240,018	1,058,823	96,942	1,155,765	(0.6)%

2.0% Inflation Adjustment

The budget includes an increase of \$162,016,700 from the General Fund in FY 2025 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.

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. For calendar year 2023, the current estimated increase in the GDP price deflator is 3.55%. The budget therefore includes the minimum required 2.0% adjustment. 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 \$(67,120,500) from the General Fund in FY 2025 due to a 2.61% 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 \$67,120,500 in FY 2025. It also will decrease state costs by \$(67,120,500), since QTR revenues offset state formula costs on a dollar for dollar basis.

Statewide NAV for property already on the tax rolls ("existing property") will increase by an estimated 3.89% in FY 2025, resulting in a net 6.5% NAV increase for new construction and existing property combined for FY 2025.

The 3.89% NAV increase for existing property will not affect net QTR collections in FY 2025 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 \$3.1860 (from \$3.3098 currently) in FY 2025 to offset the estimated 3.89% NAV increase for existing property (see Table 4).

Tax Rate	FY 2024	FY 2025
Qualifying Tax Rate (QTR)		
• High School districts and elementary districts located within a high school district	\$1.6549	\$1.5930
• Unified districts and elementary districts not located within a high school district	\$3.3098	\$3.1860

Endowment Earnings Growth

The budget includes a decrease of \$(15,091,700) from the General Fund and an increase of \$15,091,700 from the Permanent State School Fund in FY 2025 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 \$357,889,000 for FY 2025, which would be \$15,091,700 more than the \$342,797,300 total assumed for FY 2024 (see Table 5).

Source	FY 2024	FY 2025	Change
Original 2.5%	\$72,263,000	\$72,263,000	\$0
Prop 123 4.4%	<u>270,534,300</u>	<u>285,626,000</u>	<u>15,091,700</u>
Total	\$342,797,300	\$357,889,000	\$15,091,700

^{1/} These earnings also fund the Classroom Site Fund (see Table 7).

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 *Other Issues section on Endowment Earnings and Proposition 123 Background on JLBC website for more information*).

Limit Fourth Quarter ESA Funding

The budget includes a decrease of \$(2,500,000) from the General Fund in FY 2025 to limit fourth quarter ESA funding. Section 14 of the FY 2025 K-12 Budget Reconciliation Bill (BRB) (Laws 2024, Chapter 14) stipulates that ADE shall distribute funding to ESA recipients who apply for the program after March 31st no earlier than July 1st of the following fiscal year. The policy is estimated to generate a savings of \$(2,500,000) annually by limiting the temporary use of ESAs for summer programs by students who were enrolled in public school at the beginning of the fourth quarter. ADE estimated that there were 979 such enrollees in FY 2023.

Given the budget's assumption that base ESA awards would reach \$824,530,600 in FY 2025 before policy changes, the limitation on fourth quarter funding would reduce ESA awards to \$822,030,600 in FY 2025.

Remove One-Time County Jail Education Increase

The budget includes a decrease of \$(76,000) from the General Fund in FY 2025 to remove one-time funds that were used to suspend the 72% formula funding factor for county jail education programs in FY 2024 pursuant to section 19 of the FY 2024 K-12 BRB. Such programs were instead funded at 100% for FY 2024. The 3-year spending plan associated with the enacted budget designates this increase as one-time.

Funding Shift

The budget includes an increase of \$983,900 from the General Fund in FY 2025 to consolidate funding for Other State Aid to Districts to the Basic State Aid line item. This shift would include \$880,200 for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

Rollover

The budget includes no net funding change to continue the ongoing \$800,727,700 rollover amount in FY 2025. The FY 2025 General Appropriations Act advance

appropriates \$800,727,700 from the General Fund in FY 2026 to fund the \$800,727,700 deferred obligation from FY 2025 and continues to exclude districts with less than 4,000 pupils from the rollover.

Onetime Additional Assistance Supplement

The budget includes \$29,000,000 from the General Fund in FY 2025 for a Onetime Additional Assistance Supplement. Adjustments are as follows:

Onetime Funding

The budget includes an increase of \$29,000,000 from the General Fund in FY 2025 to provide a onetime supplement to District Additional Assistance (DAA) and Charter Additional Assistance (CAA) as follows:

- \$23,142,000 for a DAA supplement. A general Appropriations Act footnote requires ADE to distribute the monies on a proportional basis based on the DAA funding that each district receives in FY 2025, and authorizes districts to budget the supplement for maintenance and operations or unrestricted capital.
- \$5,858,000 for a CAA supplement. A General Appropriations Act footnote requires ADE to distribute the monies on a proportional basis based on the CAA each charter receives in FY 2025.

A General Appropriations Act footnote stipulates that the Legislature intends to increase General Fund appropriation for Basic State Aid by \$29,000,000 in FY 2028 to make the onetime additional supplements ongoing beginning in that year.

Onetime FRPL Group B Weight Supplement

The budget includes \$37,000,000 from the General Fund for a Onetime FRPL Weight Supplement. Adjustments are as follows:

Onetime Funding

The budget includes an increase of \$37,000,000 from the General Fund in FY 2025 for a onetime supplement to the Group B weight 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). An FY 2025 General Appropriations Act footnote requires that ADE distribute the \$37,000,000 on a pro-rata basis to school districts and charter schools based on FRPL counts, and authorizes school districts to budget the monies for maintenance and operations or unrestricted capital. It also stipulates that the Legislature intends to appropriate \$37,000,000 from the General Fund in FY 2028 for an ongoing increase to the FRPL weight that year.

Onetime State Aid Supplement

The budget includes no funding in FY 2025 for Onetime State Aid Supplement funding. Adjustments are as follows:

One-Time Funding

The budget includes a decrease of \$(300,000,000) from the General Fund in FY 2025 to remove funding for Onetime State Aid Supplement funding. A General Appropriation Act footnote stipulates that these monies shall be distributed to school districts and charter schools on a pro-rata basis using Group A weighted student counts, including nonresident attending students at school districts (same allocation as State Aid Supplement monies appropriated in conjunction with Proposition 123). Districts and charter schools may budget the monies for maintenance and operations or capital purposes. The 3-year spending plan associated with the enacted FY 2024 budget designates these monies as onetime.

State Aid Supplement

The budget includes \$75,000,000 from the General Fund in FY 2025 for State Aid Supplement funding. This amount is unchanged from FY 2024.

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 monies are distributed to districts and charter schools based on weighted student counts, adjusted for nonresident pupils attending district schools. 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).

Special Education Fund

The budget includes \$36,029,200 and 2 FTE Positions from the General Fund in FY 2025 for the Special Education Fund Line Item. These amounts are unchanged from FY 2024.

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 no funding from the General Fund in FY 2025 for Other State Aid to Districts. Adjustments are as follows:

Funding Shift

The budget includes a decrease of \$(983,900) from the General Fund in FY 2025 to shift funding for other state aid to districts to the Basic State Aid line item. This shift would include \$880,200 for Certificates of Educational Convenience pursuant to A.R.S. § 15-825 and \$103,700 for Assistance to School Districts for Children of State Employees (ASDCSE) pursuant to A.R.S. § 15-976.

Classroom Site Fund

The budget includes \$1,053,335,300 in FY 2025 from Classroom Site Fund (CSF) expenditure authority for the Classroom Site Fund. Adjustments are as follows:

Per Pupil Funding Increase

The budget includes an increase of \$34,422,800 from Classroom Site Fund expenditure authority in FY 2025 for an increase in the per pupil amount for the Classroom Site Fund from \$758 in FY 2024 to \$792 in FY 2025. The increase was calculated by the JLBC Staff on March 30, 2024 pursuant A.R.S. § 15-977G1.

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 \$80,425,700 from Instructional Improvement Fund Expenditure Authority in FY 2025 for the Instructional Improvement Fund. This amount is unchanged from FY 2024.

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 \$526,653,100 from the General Fund in FY 2025 for Additional State Aid, otherwise known as the Homeowners' Rebate program. Adjustments are as follows:

Prior Year Base Adjustment

The budget includes a decrease of \$(8,414,600) from the General Fund in FY 2025 to reflect lower-than-budgeted costs for Additional State Aid for FY 2024. The FY 2024 budget assumed that Additional State Aid would cost \$511,613,100 for FY 2024 for the Homeowner’s Rebate and 1% Cap combined. Based on ADE payment data through June 2024, the actual combined cost, however, is \$503,198,500. Starting point costs for Additional State Aid for FY 2025 therefore will be \$(8,414,600) less than the FY 2024 appropriation.

Decrease Commercial Assessment Ratio

The budget includes an increase of \$4,600,000 from the General Fund in FY 2025 for increased Additional State Aid Costs associated with a decrease in the assessment ratio for commercial property from 17.0% in FY 2024 to 16.5% in FY 2025. 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 \$4,600,000 for this change in FY 2025.

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 \$18,854,600 from the General Fund in FY 2025 for increased Additional State Aid costs associated with new home construction. The \$18,854,600 estimate assumes that Class 3 properties (owner occupied homes) will account for 50% of statewide property tax growth from new construction in FY 2025.

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.

Non-Formula Programs

Accountability and Achievement Testing

The budget includes \$16,444,800 and 24.4 FTE Positions in FY 2025 for Accountability and Achievement Testing. These amounts consist of:

General Fund	9,444,800
Education Sales Tax - Accountability	7,000,000

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$2,600 from the General Fund in FY 2025 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 2025:

- 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.
- 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). While AZELLA costs are funded in the English Learner Administration line item, a General Appropriation Act footnote also permits ADE to use monies in the Accountability and Achievement Testing line item for AZELLA expenses.

Adult Education

The budget includes \$16,903,200 and 4 FTE Positions from the General Fund in FY 2025 for Adult Education. Adjustments are as follows:

Funding Reduction

The budget includes a decrease of \$(4,620,000) from the General Fund in FY 2025 to reduce funding for adult education programs. A General Appropriations Act footnote stipulates that ADE distribute \$4,000,000 for the Continuing High School and Workforce Training Program, \$4,000,000 for the Community College Adult Education Workforce Development Program, and \$4,000,000 for the Adult Workforce Development Program, for a total of \$12,000,000. The \$12,000,000 allocation is \$(4,620,000) less than the amounts these 3 programs were allocated in FY 2024.

The \$12,000,000 FY 2025 allocation is labeled as one-time in the 3-year spending plan associated with the enacted budget. As a result, Adult Education funding would decrease by an additional \$(12,000,000) beginning in FY 2026. To implement the FY 2026 savings, Sections 2 and 4 of the K-12 Budget Reconciliation Bill (BRB) eliminate the Continuing High School and Workforce Training Program, the Adult Workforce Diploma Program, and the Community College Adult Education Workforce Development Program beginning in FY 2026.

Administrative Funding Adjustment

The budget includes a decrease of \$(250,000) from the General Fund in FY 2025 to eliminate administrative funding for the Continuing High School and Workforce Training Program, the Adult Workforce Diploma Program, and the Community College Adult Education Workforce Development Program.

Statewide Adjustments

The budget includes an increase of \$4,300 from the General Fund in FY 2025 for statewide adjustments.

Background – The Adult Education program in ADE 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.

The budget continues a General Appropriation Act footnote that stipulates minimum allocations to specific Adult Education programs:

- \$4,000,000 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. Section 19 of the FY 2025 K-12 BRB limits total participation in the program to 520 pupils in FY 2025 given the \$4,000,000 allocation.
- \$4,000,000 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.
- \$4,000,000 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. Section 3 of the FY 2025 K-12 BRB expands eligibility for the program to adult learners participating in community college certificate programs or integrated education and training authorized by the federal Workforce Innovation and Opportunity Act (WIOA).

Alternative Teacher Development Program

The budget includes \$1,000,000 from the General Fund in FY 2025 for an Alternative Teacher Development Program. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(800,000) from the General Fund in FY 2025 to remove one-time funding for the Alternative Teacher Development Program. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – 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 have been distributed to the Teach for America program.

Arizona Civics Education and Leadership Development Program

The budget includes no funding in FY 2025 for the Arizona Civics Education and Leadership Development Program. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(300,000) from the General Fund in FY 2025 to remove one-time funding for the Arizona Civics Education and Leadership Development Program. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – The FY 2024 K-12 Education BRB established the Program to fund grants to nonprofit organizations to provide civics education and leadership development training to middle school and high school

students. Laws 2024, Chapter 209, Section clarifies that monies appropriated to the Arizona Civics Education and Leadership Development Fund in FY 2024 are non-lapsing through FY 2025. The monies were previously only available to spend in FY 2024.

Arizona English Language Learner Fund

The budget includes \$4,960,400 from the General Fund in FY 2025 for the Arizona English Language Learner Fund. This amount is unchanged from FY 2024.

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 \$4,609,600 to public schools from the fund in FY 2023.

Arizona Holocaust Education Center

The budget includes \$7,000,000 from the General Fund in FY 2025 for the Arizona Holocaust Education Center. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$7,000,000 from the General Fund for a one-time distribution to the Arizona Holocaust Education Center. A General Appropriations Act footnote stipulates that the distribution shall be used for the creation and operation of the center as a resource for fulfilling statutory requirements related to instruction on the Holocaust and other genocides. The Arizona Department of Administration (ADOA) shall allot the appropriation and ADE shall distribute the monies in this line item by August 15, 2024.

Art Consumables

The budget includes no funding in FY 2025 for art consumables. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(7,500,000) from the General Fund in FY 2025 to remove one-time funding for art consumables. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time. The FY 2024 budget included a total of \$10,000,000 from the General Fund for this program. The FY 2025 budget reduces FY 2024 funding by \$(2,500,000) and eliminates the remaining \$7,500,000 in FY 2025, which is reflected in the budget display above.

Background - A General Appropriation Act footnote required ADE to use the FY 2024 appropriation to provide grants of up to \$1,000 per recipient to public school art teachers and teachers for preschool through third grade for consumable art supplies, materials, and instructional aids.

Broadband Expansion Fund Deposit

The budget includes no funding in FY 2025 for a Broadband Expansion Fund deposit. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,500,000) from the General Fund in FY 2025 to remove funding for a one-time deposit in the Broadband Expansion Fund. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time. The FY 2024 budget included a total of \$5,000,000 from the General Fund for this program. The FY 2025 budget reduces FY 2024 funding by \$(2,500,000) and eliminates the remaining \$2,500,000 in FY 2025, which is reflected in the budget display above.

Background – Monies in the Fund are used to provide state matching monies to schools, school districts, and libraries for broadband connectivity construction projects eligible for the federal E-Rate Program. Under the program, eligible schools, school districts, and libraries may receive a discount from the federal government, ranging from 20% to 90% based on school poverty levels, for costs associated with telecommunications, Internet access, and internal connections. A.R. S. § 15-249.07 requires ADE to report to JLBC by December 31st and June 30th annually on broadband projects funded with fund monies and the number of students served.

Center for High School Success

The budget includes \$1,000,000 from the General Fund in FY 2025 for a Center for High School Success. This amount is unchanged from FY 2024. The 3-year spending plan associated with the enacted FY 2025 budget designates these monies as one-time.

Background – ADE allocates the monies in this line item to a Ninth Grade Success Grant. Grant monies are distributed to districts and charter schools to establish a Ninth Grade Success Team, data systems, instructional supports, transition programs, to assist ninth graders in advancing to tenth grade on time. ADE prioritizes grants to schools with a high school graduation rate that was within the lowest 25% of high schools in Arizona and caps the grant amount per school at \$50,000.

College Credit by Examination Incentive Program

The budget includes \$3,772,100 from the General Fund in FY 2025 for the College Credit by Examination Incentive Program (CCEIP). Adjustments are as follows:

Decreased Funding

The budget includes a decrease of \$(3,700,000) from the General Fund in FY 2025 to reduce funding for CCEIP awards. Pursuant to A.R.S. § 15-249.06, ADE may reduce the maximum statutory awards per passing college credit exam proportionately if the total awards would otherwise exceed the available appropriation.

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 (e.g. Advanced Placement) 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.

For FY 2024, ADE reports that districts and charter schools qualified for \$7,986,800 in program awards. This amount includes \$6,876,600 for awards for 22,922 exams passed in schools with less than 50% FRPL-eligibility (\$300 per exam) and \$1,110,200 for 2,467 exams passed in schools with 50% or more FRPL-eligibility (\$450 per exam). ADE paid the full statutory award in FY 2024 using monies from the FY 2024 appropriation (\$7,472,100) and unspent balances in the College Credit by Examination Development Fund.

College Placement Exam Fee Waiver

The budget includes \$1,265,800 from the General Fund in FY 2025 for a College Placement Exam Fee Waiver. This amount is unchanged from FY 2024.

Background – This line item funds out-of-pocket expenses for college placement exams taken by students who are FRPL-eligible. ADE currently covers \$53 per regular Advanced Placement Exam and \$101 per AP Seminar and AP Research Exam, resulting in a net cost of \$0 for the qualifying student.

Computer Science Professional Development Program

The budget includes \$1,000,000 from the General Fund in FY 2025 for a Computer Science Professional Development Program. This amount is unchanged from FY 2024.

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. Grant monies may be used to provide training for prospective computer science teachers. The program 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 Certification Exam Fee Reimbursement

The budget includes \$1,000,000 from the General Fund in FY 2025 for CTED Certification Exam Fee Reimbursement. This amount is unchanged from FY 2024.

Background – This line item funds a deposit in the Industry-Recognized Certification and Licensure Reimbursement Fund established by A.R.S. § 15-1265. Monies in the fund are used to eliminate or reduce exam costs to obtain industry-recognized certificates and licenses for FRPL-eligible students. To qualify, eligible students must pass a certificate or license exam related to a career and technical education program and apply to their CTED to receive reimbursement. If monies in the fund are insufficient to fund all eligible exams, the reimbursement is reduced in proportion to each exam's cost.

CTED Completion Grants

The budget includes \$1,000,000 from the General Fund in FY 2025 for CTED Completion Grants. This amount is unchanged from FY 2024.

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 2026).

CTED Soft Capital and Equipment

The budget includes \$1,000,000 from the General Fund in FY 2025 for CTED Soft Capital and Equipment. This amount is unchanged from FY 2024.

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 2025.

Dual Enrollment Student Development Fund Deposit

The budget includes no funding in FY 2025 for a Dual Enrollment Student Development Fund deposit. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2025 to remove funding for a one-time deposit in the Dual Enrollment Student Development Fund. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time. The FY 2024 budget included a total of \$15,000,000 from the General Fund for this program. The FY 2025 budget reduces FY 2024 funding by \$(12,000,000) and eliminates the remaining \$3,000,000 in FY 2025, which is reflected in the budget display above. An FY 2025 General Appropriation Act footnote requires ADE to distribute the remaining \$3,000,000 in FY 2024 pursuant to the terms and conditions of the original FY 2024 appropriation.

Section 20 of the FY 2025 K-12 Education BRB eliminates the Dual Enrollment Student Development Fund.

Background – The FY 2024 K-12 Education BRB established the fund to be used to reimburse students at a level of \$50 per credit hour who obtain a passing grade in a qualifying dual enrollment course. Students enrolled in grades 9 or 10 can receive up to \$300 per school year from the fund, and students enrolled in grades 11 or 12 can receive up to \$600 from the fund. ADE must prioritize distributions to providers that serve students who are

eligible for the federal Free and Reduced-Price Lunch (FRPL) program.

Dual Enrollment Teacher Development Fund Deposit

The budget includes no funding in FY 2025 for a Dual Enrollment Teacher Development Fund deposit. This amount is unchanged from FY 2024.

The FY 2024 budget included \$500,000 from the General Fund in FY 2024 for a one-time deposit in the Dual Enrollment Teacher Development Fund. The FY 2025 budget eliminates this funding. Section 20 of the FY 2025 K-12 Education BRB also eliminates the Dual Enrollment Teacher Development Fund.

Background – The FY 2024 K-12 Education BRB established the fund to be used to provide an incentive bonus up to \$1,000 to qualified teachers who teach a dual enrollment course. If monies in the fund are insufficient to fund all bonus awards, the reimbursement is reduced in proportion to each exam's cost.

Early Education and Career Exploration Program

The budget includes no funding in FY 2025 for an Early Education and Career Exploration Program. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(5,000,000) from the General Fund in FY 2025 to remove one-time funding for the Early Education and Career Exploration Program. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – The FY 2024 K-12 Education BRB requires ADE to contract with a nonprofit entity to provide a career mapping tool for students and training and resources for public schools to create, monitor, review, and update career action plans for each student in grades 9 through 12. Laws 2024, Chapter 209, Section clarifies that monies appropriated to the Early Education and Career Exploration Program Fund in FY 2024 are non-lapsing through FY 2025. The monies were previously only available to spend in FY 2024.

Early Literacy

The budget includes \$17,386,200 and 3 FTE Positions from the General Fund in FY 2025 for Early Literacy. Adjustments are as follows:

Eliminate Kindergarten Entry Assessment

The budget includes a decrease of \$(1,500,000) from the General Fund in FY 2025 to eliminate funding for administration of a kindergarten entry assessment. Sections 8 and 9 of the FY 2025 K-12 BRB eliminate the related requirement that the State Board of Education (SBE) develop a kindergarten entry evaluation tool if sufficient monies are appropriated.

Statewide Adjustments

The budget includes an increase of \$6,200 from the General Fund in FY 2025 for statewide adjustments.

Background – This line item funds the following early literacy programming:

- Deposits in the Early Literacy Grant Program Fund (ELGPF) established A.R.S. § 15-249.09. The fund provides grants to schools with at least 90% FRPL-eligibility on a per pupil basis to improve reading proficiency among K-3 pupils. Eligible expenses include literacy coaches and literacy specialists, reading curricula, kindergarten readiness assessments, summer programs, or tutoring.
- Literacy coaches to assist low-performing schools.
- Dyslexia trainings required by the K-3 Reading Program established by A.R.S. § 15-211.
- Fees associated with the Science of Reading exam for K-5 literacy instructions pursuant to A.R.S. § 15-501.01.

Education Learning and Accountability System

The budget includes \$5,470,200 and 24.2 FTE Positions from the General Fund in FY 2025 for the Education Learning and Accountability System (ELAS) line item. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$23,500 from the General Fund in FY 2025 for statewide adjustments.

Background – The monies in this line item are for continued maintenance and operation of ELAS, 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).

English Learner Administration

The budget includes \$11,608,800 and 13.5 FTE Positions from the General Fund in FY 2025 for English Learner Administration. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$5,000,000 from the General Fund in FY 2025 for increased costs of ADE's contract for the Arizona English Language Learner Assessment (AZELLA). The 3-year spending plan associated with the enacted FY 2025 budget designates this funding as one-time.

Statewide Adjustments

The budget includes an increase of \$11,800 from the General Fund in FY 2025 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.*)

Feminine Hygiene Products

The budget includes no funding in FY 2025 for feminine hygiene products. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,000,000) from the General Fund in FY 2025 to remove one-time funding to provide feminine hygiene products at no cost at Arizona public schools. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Flagstaff Robotics Program

The budget includes \$10,000 from the General Fund in FY 2025 for the Flagstaff Robotics Program. Adjustments are as follows:

Funding Reallocation

The budget includes a decrease of \$(10,000) from the General Fund in FY 2025 to reallocate monies from the Flagstaff Robotics Program to the Show Low Robotics Program. The 3-year spending plan associated with the enacted budget assumes that the \$10,000 distribution will continue on a one-time basis in FY 2026.

Geographic Literacy

The budget includes \$100,000 from the General Fund in FY 2025 for Geographic Literacy. This amount is unchanged from FY 2024.

Background – 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 2025 for Gifted Assessments. This amount is unchanged from FY 2024.

Background – 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.

Gila County Jail Education

The budget includes no funding in FY 2025 for Gila County Jail Education. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(10,000) from the General Fund in FY 2025 to remove one-time funding for the jail education program in Gila County. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – County jail education programs serve pupils aged 21 years old or younger who are currently in jail and who do not have a high school diploma or general equivalency diploma.

Jobs for Arizona Graduates

The budget includes \$500,000 from the General Fund in FY 2025 for a Jobs for Arizona Graduates program. This amount is unchanged from FY 2024.

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.

Juvenile Detention Centers

The budget includes no funding in FY 2025 for juvenile detention centers. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(52,600) from the General Fund in FY 2025 to remove one-time funding for juvenile detention centers. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A FY 2024 General Appropriation Act footnote stipulates that the FY 2024 appropriated amount includes \$22,600 for Yavapai County, \$20,000 for Pinal County and \$10,000 for Maricopa County. A.R.S. § 15-913 establishes a funding formula for county juvenile detention education programs not operated through an accommodation school. The appropriated amounts for Yavapai, Pinal, and Maricopa counties are in addition to that funding formula.

Low-Income After School Program Grants

The budget includes \$2,000,000 from the General Fund in FY 2025 for Low-Income After School Program Grants. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$2,000,000 from the General Fund for one-time grants for entities that provide after school programs to low-income individuals.

K-12 Mental Health Telehealth Pilot

The budget includes \$2,000,000 from the General Fund in FY 2025 for a K-12 Mental Health Telehealth Pilot. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$2,000,000 from the General Fund for one-time funding of a K-12 Mental Health Telehealth Pilot. A General Appropriations Act footnote requires that the program serve individuals outside Maricopa and Pima counties.

K-12 Transportation Formula Study

The budget includes no funding in FY 2025 for a K-12 Transportation Formula Study. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2025 to remove one-time funding for a K-12 Transportation Formula study. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A General Appropriation Act footnote requires ADE to use the FY 2024 appropriation to develop a per pupil weighted transportation funding formula for K-12 students. ADE must report to the President of the Senate, the Speaker of the House, the Chairpersons of the House and Senate Education Committees, JLBC, and OSPB on the results of the study by December 31, 2023. ADE determined that it was not feasible to complete the study in the time required by the General Appropriations Act. As a result, the study was not conducted, and the monies reverted to the General Fund at the end of FY 2024.

Live, Remote Instructional Courses

The budget includes \$100,000 from the General Fund in FY 2025 for Live, Remote Instructional Courses. This amount is unchanged from FY 2024.

Background – The FY 2024 K-12 Education BRB allows a school district or charter to contract with another school district or charter to offer live, remote instruction to its own students in grades 9 through 12. ADE must pay an incentive bonus of \$500 for each student who receives a passing grade in a live, remote instruction course to a school district or charter school that acts as a live, remote instruction service provider. If the total cost of rewards exceeds the appropriation, ADE must reduce all awards proportionally to cover all eligible rewards.

The 3-year spending plan associated with the enacted budget assumes that an additional \$100,000 distribution would be made in FY 2025 on a one-time basis.

Nonprofit Education Initiatives

The budget includes no funding in FY 2025 for Nonprofit Education Initiatives. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(100,000) from the General Fund in FY 2025 to remove one-time funding for nonprofit education initiatives. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A General Appropriation Act footnote requires ADE to distribute the appropriation to a Scottsdale-based 501(c)(3) nonprofit that provides

scholarships and other education programming and promotes youth activities, sports, and cultural enrichment.

Nonprofit Low-Income Assistance

The budget includes no funding in FY 2025 for Nonprofit Low-Income Assistance. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(500,000) from the General Fund in FY 2025 to remove one-time funding for nonprofit low-income assistance. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A General Appropriation Act footnote requires ADE to distribute the appropriation to a 501(c)(3) nonprofit that provides low-income children in kindergarten programs and grades 1 through 8 with new clothing and shoes, hygiene kits, and new books.

Onetime School Meal Grants

The budget includes \$3,800,000 from the General Fund in FY 2025 for the Onetime School Meal Grants. Adjustments are as follows:

One-Time Funding

The budget includes an increase of \$3,800,000 from the General Fund in FY 2025 for one-time funding for school meal grants. A General Appropriations Act footnote stipulates that the monies shall be distributed to school districts and charter schools that participate in the National School Lunch Program or School Breakfast Program for grants to reduce or eliminate copayments that would otherwise be charged to children eligible for reduced-price meals. If the appropriation is insufficient to cover all eligible grantees, ADE shall reduce the grants proportionately to cover all eligible grantees.

Phoenix Science Education Programs

The budget includes no funding in FY 2025 for Phoenix Science Education Programs. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(2,500,000) from the General Fund in FY 2025 to remove one-time funding for Phoenix Science Education Programs. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A General Appropriation Act footnote requires ADE to distribute the money to a Phoenix-based organization that provides STEM education programs and professional development training.

Public School Campus Community Gardens

The budget includes no funding in FY 2025 for Public School Campus Community Gardens. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(100,000) from the General Fund in FY 2025 to remove one-time funding for public school campus community gardens. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time. The appropriation is non-lapsing.

Public School Campus Trees

The budget includes no funding in FY 2025 for Public School Campus Trees. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(300,000) from the General Fund in FY 2025 to remove one-time funding for public school campus trees. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A General Appropriation Act footnote requires ADE to distribute the appropriation until December 31, 2023 for grants to public schools where at least 75% of students are FRPL-eligible to plant low-biogenic volatile organic compound-emitting trees that are appropriate for each school's respective climate. After December 31, 2023, ADE may distribute the monies to public schools on a first-come, first-served basis. The appropriation is non-lapsing.

School Safety Program

The budget includes \$82,010,200 and 4 FTE Positions in FY 2025 for the School Safety program. These amounts consist of:

General Fund	74,210,200
Education Sales Tax - School Safety	7,800,000

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$17,800 from the General Fund in FY 2025 for statewide adjustments.

Background – The School Safety Program established in A.R.S. § 15-154 allows schools to apply for grant monies to support the costs of placing school resource officers (SROs), juvenile probation officers (JPOs), school counselors, and school social workers on school campuses.

Funding is allocated by the Department of Education and is subject to review and approval by the State Board of Education pursuant to A.R.S. § 15-154. 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.

In May 2023, the State Board of Education approved ADE's proposed awards for the School Safety Grant Program for FY 2024 through FY 2026. Those awards include 869 positions, consisting of \$39,299,100 for 303 SROs and JPOs and \$45,223,400 for 566 school counselors and social workers. The department reported that all SRO and JPO applications were funded, while there are a remaining 182 school counselor and social worker positions on the program waiting list.

ADE reports that through June 2024, the program is funding 312 filled SRO/JPO positions and 562 school counselor/social worker positions.

Show Low Robotics Program

The budget includes \$10,000 from the General Fund in FY 2025 for the Show Low Robotics Program. Adjustments are as follows:

Funding Reallocation

The budget includes an increase of \$10,000 from the General Fund in FY 2025 to reallocate monies from the Flagstaff Robotics Program to the Show Low Robotics Program. The 3-year spending plan associated with the enacted budget assumes that the \$10,000 distribution will continue on a one-time basis in FY 2026.

State Block Grant for Vocational Education

The budget includes \$11,798,200 and 27 FTE Positions from the General Fund in FY 2025 for the State Block Grant for Vocational Education. Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$23,900 from the General Fund in FY 2025 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 2024, the department will receive an estimated \$33,726,600 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 \$359,000 from the Department of Education Empowerment Scholarship Account Fund in FY 2025 for Student Level Data Access. This amount is unchanged from FY 2024.

Background – 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 \$2,583,100 and 22.9 FTE Positions in FY 2025 for Teacher Certification. These amounts consist of:

General Fund	179,500
Teacher Certification Fund	2,403,600

Adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$38,500 from the Teacher Certification Fund in FY 2025 for statewide adjustments.

Background – 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

The budget includes no funding in FY 2025 for Teacher Professional Development. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(3,000,000) from the General Fund in FY 2025 to remove one-time funding for the Professional Development and Support Personnel Pilot Program established by the FY 2024 K-12 Education BRB. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – The program provided funding for school districts with a low teacher experience index to hire professional development and support staff for new and transferring teachers. In FY 2024, ADE is required to distribute 50% of the appropriation to Maricopa and Pima Counties, and the remaining 50% to all other counties.

Tribal College Dual Enrollment Program

The budget includes \$325,000 from the Tribal College Dual Enrollment Program Fund in FY 2025 for the Tribal College Dual Enrollment Program. This amount is unchanged from FY 2024.

Background – 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.

Youth Summer Education Program

The budget includes no funding in FY 2025 for a Youth Summer Education Program. Adjustments are as follows:

Remove One-Time Funding

The budget includes a decrease of \$(250,000) from the General Fund in FY 2025 for a Youth Summer Education Program. The 3-year spending plan associated with the enacted FY 2024 budget designated this funding as one-time.

Background – A General Appropriation Act footnote requires ADE to distribute the appropriation to a nonprofit based in Globe that provides summer education programs for youth.

Other Issues

This section includes information on the following topics:

General Issues

- FY 2024 Supplementals
- Statutory Changes
- Long-Term Budget Impacts

Ballot Proposition

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

Basic State Aid

- Basic State Aid Formula Description

Information on these various issues is as follows:

FY 2024 Supplementals

The FY 2025 budget includes the following FY 2024 supplemental reductions:

- \$(12,000,000) from the General Fund to reduce funding for a deposit in the Dual Enrollment Student Development Fund (*Please see the Dual Enrollment Student Development Fund Deposit line item for further details.*)
- \$(500,000) from the General Fund to eliminate funding for a deposit in the Dual Enrollment Teacher Development Fund (*Please see the Dual Enrollment Teacher Development Fund Deposit line item for further details.*)
- \$(2,500,000) from the General Fund to reduce funding for a Broadband Expansion Fund Deposit. (*Please see the Broadband Expansion Fund Deposit line item for further details.*)
- \$(2,500,000) from the General Fund to reduce funding for Art Consumables (*Please see the Art Consumables line item for further details.*)

Statutory Changes

The K-12 Budget BRB 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.

- As permanent law, update the Qualifying Tax Rate cited in A.R.S. § 41-1276 to reflect the Truth in Taxation rates established for FY 2025.

Other

- As permanent law, eliminate the Continuing High School and Workforce Training Program, Adult Workforce Diploma Program, and the Community College Adult Education Workforce Development Program beginning in FY 2026.
- As permanent law, modifies the Community College Adult Education Workforce Development program to allow the colleges to receive monies for adult learners that are enrolled in community college, participate in integrated education and training, and pursue academic skills development related to adult education and literacy activities as specified in the federal Workforce Innovation and Opportunity Act (WIOA). Also allows funding for students earning a community college certificate.
- As session law, set the enrollment cap for the Continuing High School and Workforce Training program at 520 for FY 2025.
- As permanent law, allow Career Technical Education Districts (CTEDs) to build, maintain, and providing housing facilities and support services for students who are in foster care for are unaccompanied youth.
- As permanent law, require that school districts offer teacher contracts for the next school year no earlier than March 15th.
- As permanent law, allow school districts to allocate litigation recovery fund monies to remedial measures reasonably related to litigation by or against the school district. After allocating monies to all litigation-related expenses, the school district may use monies in the fund for maintenance and operation or unrestricted capital.
- As permanent law, stipulates that ESA monies may be used for tuition at a private school that requires all teaching staff and personnel who have unsupervised contact with students to be fingerprinted.
- As permanent law, authorizes ESA monies to be expended on tutoring services from individuals that are not subject to disciplinary action by the State Board of Education (SBE) for immoral or unprofessional conduct. Requires ADE to remove tutors subject to SBE discipline from all ESA purchasing platforms provided by the department.
- As permanent law, require ADE to verify ESA eligibility in the year for which the parent seeks to renew the ESA. Clarifies that ADE is not required to annually verify a child's disability.

- As permanent law, require ADE to develop risk-based auditing procedures for the ESA program in consultation with the Auditor General.
- As permanent law, require ADE to annually review a sample of ESAs selected at random to determine whether the parent or student is in compliance with the ESA contract, applicable laws, rules and orders relating to the ESA program. Limit reviews to no more than once every 5 years for each parent or student in good standing and prohibits students from receiving ESA monies while enrolled in a school district or charter school.
- As permanent law, authorize ADE to approve applications for enrollment in advance for the ESA program up to two fiscal quarters after the quarter in which the application is completed.
- As permanent law, stipulates that ADE shall enroll any applicants for the ESA program who submit an application after March 31st on or after July 1st.
- As permanent law, requires ADE to submit its estimate to JLBC and OSPB of the amount required to fund the ESA program by September 1st and November 1st annually instead of May 30th.
- As permanent law, requires ADE to establish and maintain an online database of allowable and disallowed categories of expenses and provide a link to the database on the department's website.
- As permanent law, allow the use of ESA monies to reimburse the parent or a qualified student for the purchase of a good or educational service that is an allowable expense.
- As session law, allow the Arizona Civics Education and Leadership Development Fund (established by Laws 2023, Chapter 142, Section 12) to be used beyond FY 2024. Repeals the fund on June 30, 2025 and directs unexpended or unencumbered monies to be deposited into the General Fund. In the FY 2024 budget, this fund was established in a session law that was only effective through the end of FY 2024.
- As session law, allow the Early Education and Career Exploration Program Fund (established by Laws 2023, Chapter 142, Section 13) to be used beyond FY 2024. Repeals the fund on June 30, 2025 and directs unexpended or unencumbered monies to be deposited into the General Fund. In the FY 2024 budget, this fund was established in a session law that was only effective through the end of FY 2024.
- As session law, repeal the Dual Enrollment Teacher Development Fund and the Dual Enrollment Student Development Fund (established by Laws 2023, Chapter 142, Sections 16 and 17).
- As session law, continue to notwithstanding A.R.S. 15-241 to allow ADE to expend monies in FY 2025 from the Failing Schools Tutoring Fund for school improvement. Require ADE to report on proposed

expenditures from the fund to the Governor, Speaker of the House, President of the Senate, JLBC and OSPB by September 1, 2024.

- As session law, continues 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.

The Taxation BRB makes the following statutory changes:

- As permanent law, cap the aggregate dollar level of the Corporate Low-Income Student Tuition Tax Credit at \$135 million annually, beginning in FY 2025.
- As permanent law, expand the eligibility for scholarships from the "Switcher" Individual Income Tax Credit and Corporate Low-Income Student Tuition Tax Credit programs to include foster care children that meet certain requirements. If a court rules that the aggregate tax credit cap in section 4 is unenforceable and that judgement is no longer subject to further appeal or review, these provisions would not be effective
- As session law, require county supervisors to reduce property tax levies in FY 2025 in elementary districts without a high school (i.e. "Type 03" districts) that are non-state aid districts and that were required to levy the minimum qualifying tax rate (MQTR) in FY 2024 (the MQTR is required if the district's property tax collections for basic state aid are less than 50% of what would be generated by the full QTR). The reduction is equal to the district's Type 03 county levy (a county property tax first levied in FY 2024 to fund the basic state aid costs of high school students who reside in Type 03 districts) or its MQTR levy from FY 2024, whichever is less. The reduction is intended to reimburse the affected districts for MQTR rate increases that occurred in FY 2024 as a result of the Type 03 county levies being excluded from the MQTR rate calculation. Beginning in FY 2025, Type 03 county levies will be deducted from the MQTR on an ongoing basis pursuant to HB 2173 (Laws 2024, Chapter 134).

The Taxation BRB also includes a number of session law provisions related to the judgment entered in the *Qasimyar v. Maricopa County* property tax litigation. Please see Qasimyar Property Tax Litigation policy issue above for more information.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, ADE General Fund costs are projected to increase \$384,604,000 in FY 2026 compared with FY 2025 and increase by

\$175,439,500 in FY 2027 above FY 2026. These estimates are based on:

- Enrollment declines of (0.2)% in FY 2026 and (0.6)% in FY 2027.
- GDP inflators of 2.0% for FY 2026 and FY 2027. Statute funds the lesser of 2% or the actual rate.
- New construction NAV growth of 2.05% for FY 2026 and 1.95% for FY 2027.
- General Fund increase of \$284,767,400 in FY 2026 for endowment earnings changes. The General Fund increase in FY 2026 assumes the increase in land trust endowment earnings distributions from 2.5% to 6.9% required by Proposition 123 would expire in FY 2026.
- An increase of \$4,600,000 each of FY 2026 and FY 2027 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.
- A decrease of \$(98,900,000) in FY 2026 and \$(20,000) in FY 2027 to remove funding designated as one-time.

Fund Transfers

The budget includes the following transfers from this agency's funds to the General Fund:

	FY 2024
Adult Workforce Diploma Program Fund	\$3,000,000
Community College Adult Education Workforce Development Program Fund	8,900,000
Computer Science Professional Development Program Fund	5,000,000

Endowment Earnings

In FY 2023, endowment earnings from state trust lands funded \$459,807,000 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 2024, public schools will receive an estimated \$481,607,600 of expendable land trust monies from the State Land Department and State Treasurer combined. That total includes \$57,360,600 from the Land Department and \$424,247,000 from the State Treasurer. Under the budget, we estimate total endowment earnings will increase to \$505,274,100 in FY 2025. In FY 2026 earnings distributed would decrease to \$228,783,200 as a result of the expiration of the 4.4% factor beginning in FY 2026. (see Table 6).

<u>Source</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Land Department	57.4	57.4	57.4	57.4	57.4
Treasurer	402.4	424.2	447.9	171.4	181.8
Total	459.8	481.6	505.3	228.8	239.2

Table 7 shows K-12 endowment earning uses. In FY 2025, the \$505,274,100 of expendable earnings includes \$357,889,000 for Basic State Aid and the remaining \$147,385,100 would be deposited into the Classroom Site Fund (A.R.S. § 15-977) pursuant to A.R.S. § 37-521B4. Under the budget, the amount distributed for Basic State Aid is \$72,263,000 in FY 2026 and FY 2027 as a result of the expiration of the 4.4% factor from Proposition 123. A.R.S. § 37-521 stipulates that the distribution of endowment earnings from the 2.5% distribution may not exceed \$72,263,000.

<u>Source</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
Basic State Aid	328.9	342.8	357.9	72.3	72.3
Classroom Site Fund	130.9	138.8	147.4	156.5	166.9
Total	459.8	481.6	505.3	228.8	239.2

The \$(285,626,000) decrease in endowment earnings distributions to Basic State Aid in FY 2026 would require a corresponding General Fund increase of the same amount under current state statute. Without a statutory change to the Basic State Aid formula, ADE would have no legal authority to reduce Basic State Aid allocations to account for the \$(285,626,000), meaning by default the General Fund would have to backfill the reduced endowment earnings distribution on a dollar-for-dollar basis.

The Legislature, however, could reduce or eliminate this backfill requirement by either 1) reauthorizing the current 6.9% distribution level via a legislatively-referred ballot measure to amend the state constitution or 2) offsetting the backfill with other adjustments in spending. Under Proposition 301, the Legislature would not be permitted to reduce either the Base Level or Transportation Support Level funding, as both amounts must be adjusted annually for inflation. As a result, the Legislature's main options within the funding formula would be reductions to District Additional Assistance or Charter Additional Assistance. The Legislature would also have the option of reducing or discontinuing the \$75,000,000 state aid supplement funding that was advance-appropriated in companion legislation with Proposition 123. (See Proposition 123 Background on JLBC Website for more information).

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 2025, 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.

The triggers continue to be in effect following the expiration of the 4.4% increase of the land trust endowment distribution. The budgeted K-12 spending level constitutes approximately 47.0% of total state General Fund appropriations in FY 2025, 48.9% in FY 2025, and 47.9% in FY 2027. *(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. A.R.S. § 15-911C2 allows the Legislature to authorize statewide spending above the AEL for that year with a two-thirds majority vote in both the House of Representatives and Senate.

Since FY 2022, the Legislature has authorized the following AEL exceedances:

- For FY 2022, 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. Pursuant to House Concurrent Resolution (HCR) 2039 in the 55th Legislature, Second Regular Session, the Legislature authorized district expenditures of \$1,154,029,000 above the AEL for FY 2022.
- For FY 2023, ADE reported that budgeted district expenditures exceed the AEL by \$1,385,809,600. Pursuant to HCR 2001 in the 56th Legislature, First Regular Session, the Legislature authorized district expenditures of \$1,385,809,600 above the AEL for FY 2023.
- For FY 2024, the Legislature pre-emptively authorized districts to exceed the AEL in FY 2024 pursuant to Senate Concurrent Resolution (SCR) 1041 in the 56th Legislature, First Regular Session. ADE subsequently estimated that district budgets would have exceeded the AEL for FY 2024 by \$1,362,757,300 without the override authorized by SCR 1041.
- For FY 2025, the Legislature again pre-emptively authorized districts to exceed the AEL in FY 2025 pursuant to HCR 2065 adopted during the 56th Legislature, Second Regular Session.

A permanent increase in the AEL would require a voter-approved change to the State Constitution or adoption of a 2/3 resolution by the Legislature revising the inflation measure used to calculate the limit.

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. The Proposition 301 sales tax expired at the end of FY 2021.

Starting in FY 2022, Laws 2018, Chapter 74 replaced 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 were 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 2024. Laws 2018, Chapter 74 dedicates to the Classroom Site Fund all 0.6¢ sales tax monies remaining after all other distributions are made. Its share

equaled \$815,542,600 (69.3%) of the \$1,176,353,900 of estimated collections for FY 2024.

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 2025 are \$1,108,774,000.

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.

Table 8

**Education Sales Tax Monies
(FY 2025 Estimate)
(\$ in Millions)**

EDUCATION SALES TAX REVENUES

<u>Recipient</u>	<u>Amount</u>	<u>Comment</u>
Universities	141.4	Receive 12% of monies remaining after Basic State Aid distribution is deducted.
Community Colleges	35.3	Receive 3% of monies after BSA distribution.
Tribal Colleges	1.4	Same formula as for community colleges.
DOR Tax System	0.8	
Income Tax Credit	<u>25.0</u>	For income tax credit authorized by A.R.S. § 43.1072.01.
Subtotal - Non-ADE Programs	\$203.9	
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>871.5</u>	Receives all monies remaining after other distributions are made.
Subtotal - ADE Programs	\$1,038.4	
Total - Education Sales Tax	\$1,242.3	
CLASSROOM SITE FUND REVENUES (ALL SOURCES)		
Education Sales Tax (from above)	871.5	
Prop 301/CSF - Land Trust	147.4	
Prop 301/CSF - Carry-Forward	<u>89.8</u>	
Total - Classroom Site Fund	\$1,108.8^{1/}	

^{1/} Total estimated disbursements reported for FY 2025 in JLBC's Classroom Site Fund memo from March 2024. Amounts may not add due to rounding.