

Estimated Classroom Site Fund Per Pupil Amount for FY 2023

A.R.S. § 15-977 requires the JLBC Staff to determine a per pupil amount from the Classroom Site Fund (CSF) for the upcoming fiscal year. The CSF was established by Proposition 301 (2000). It receives funding from the 0.6¢ education sales tax established by Proposition 301 (and continued by Laws 2018, Chapter 74) as well as a portion of K-12 state land trust revenues.

The JLBC Staff currently estimates that public schools will receive \$708 per weighted pupil from the CSF in FY 2023 on both a cash and "budget capacity" basis. This amount is a decrease of \$(25) from the FY 2022 CSF per pupil amount of \$733. This adjustment consists of the following changes:

- A decrease of \$(122) per weighted pupil to remove one-time funding for accumulated one-time cash balances in the Classroom Site Fund due to higher-than-budgeted sales tax revenues during the pandemic. ADE reports that the cash balance in the fund at the beginning of FY 2022 was \$258.0 million. We estimate that by the end of FY 2022 the cash balance will decline to \$123.6 million.
- An increase of \$97 per weighted pupil for an increase in ongoing revenues from the 0.6 cent education sales tax and land trust endowment monies. New revenues from the education sales tax (excluding any accumulated cash balances) are expected to increase by \$126.7 million in comparison to the original FY 2022 calculation. The \$126.7 million assumes sales tax growth of 13.8% in FY 2022 and 4.0% in FY 2023. In addition, land trust endowment earnings are expected to increase by \$5.3 million.

Statutory Formula

A.R.S. § 15-977G1 stipulates that the per pupil funding amount from the CSF for a given budget year shall be computed using the estimated "weighted" student count for the current year and estimated resources in the CSF for the budget year, adjusted for any prior year carry-forward or shortfall. The Arizona Department of Education (ADE) currently estimates that the weighted student count for the next year (FY 2023) will be 1,337,576 and the JLBC Staff currently estimates that the CSF will have \$946,524,800 in available resources for FY 2023. These 2 estimates yield a CSF per pupil amount of \$708 per weighted student for FY 2023. (*see attachment*).

Estimated Weighted Student Count

The estimated FY 2023 weighted student count of 1,337,576 is based on preliminary 100-day Average Daily Membership (ADM) data from school districts for the current year (FY 2022) and projected 100-day ADM counts for charter schools for next year (FY 2023). CSF allocations are based on "student counts," which for Classroom Site Fund purposes is interpreted to mean prior year ADM for districts (FY 2022 for the FY 2023 distribution) and current year ADM for charter schools (FY 2023 for the FY 2023 distribution). The portion of the estimated count that pertains to charter schools is more uncertain than the district portion because it will depend on actual charter school ADM growth next year.

ADE's student count estimate includes pupils from the Arizona State Schools for the Deaf and the Blind (ASDB) and the Department of Juvenile Corrections (DJC), since they both also receive CSF funding. Per pupil allocations for public schools and DJC are based on their "Group A weighted" student counts pursuant to A.R.S. § 15-977G. ASDB allocations are based on its "Group B weighted" student counts pursuant to A.R.S. § 15-977L.

Estimated CSF Revenues

The CSF revenue estimate of \$708 per weighted pupil for FY 2023 assumes a 13.8% increase in education sales tax revenues for FY 2022 and a 4.0% increase above FY 2022 for FY 2023. These are estimates for state sales tax revenues in general (not just from the education sales tax) for FY 2022 and FY 2023. The growth rates represent the JLBC Staff's January 2022 Baseline projections adjusted in FY 2022 for higher-than-forecast year-to-date growth. Excluding the effect of cash balances, FY 2022 total education sales tax revenues were estimated to be \$942,373,900 a year ago. We now forecast FY 2022 revenues of \$1,049,514,700 with a further increase to \$1,091,495,300 in FY 2023.

The \$708 per weighted pupil estimate also includes a projected \$128,463,900 in K-12 endowment earnings for FY 2023. Under Proposition 301, the first 2.5% of the Treasurer's distribution and the Land Department's expendable receipts above \$72,263,000 are deposited into the CSF. Increases from Proposition 123 (2016) are used for Basic State Aid and are not deposited into the CSF.

Based on input from the State Treasurer and State Land Department, total K-12 endowment earnings are projected to be \$457,359,500 for FY 2023, including monies from Proposition 123. Of that amount, an estimated \$328,895,600 would be used for Basic State Aid. The remaining \$128,463,900 would be deposited into the CSF pursuant to A.R.S. § 37-521B4, or an increase of \$5,296,200 in comparison to the FY 2022 CSF per pupil amount.

Cash versus "Budget Capacity"

The CSF per pupil amount that is computed each year pursuant to A.R.S. § 15-977G1 represents an amount that school districts and charter schools are authorized to spend ("budget capacity") per pupil for the fiscal year regardless of how much CSF cash actually ends up being available for that year. If CSF cash ends up being insufficient to fully fund the authorized CSF per pupil "budget capacity" amount, school districts and charter schools may borrow cash from some of their other local funds in the short term in order to make up the difference. The following year, however, A.R.S. § 15-977G1 requires a corresponding reduction in CSF per pupil "budget capacity" in order to bring cumulative CSF cash and "budget capacity" back into balance and repay borrowed local funds.

For FY 2011 through FY 2013, CSF "budget capacity" per pupil was less than the available "cash" amount in order to eliminate large CSF cash shortfalls that developed during the Great Recession. Those cumulative cash shortfalls were eliminated in FY 2014.

Potential Impact of Estimation Error

The estimates are based on projected sales tax revenues, endowment earnings, carry-forward amounts, student counts, and other factors. If revenue factors or student counts vary from the assumptions, more funding will end up being available per pupil than anticipated, or vice versa.

If the per pupil estimate is too *high*, recipients will receive only what is available for distribution from the CSF for the year, which would be less than the estimated per pupil amount. Under this circumstance, A.R.S. § 15-977M and 15-978 would allow school districts to borrow from other internal funds or issue "warrants" (short-term loans from commercial banks) to temporarily make up the difference. Districts would then have to pay back their internal funds or warrants with interest the following year. Charter schools do not have statutory authority to issue warrants, however, so would have to cover any CSF shortfall with alternative funding, such as from separately-arranged bank financing.

If the per pupil estimate is too *low*, recipients potentially could receive at least a portion of the surplus funding through prior year back-payments authorized by A.R.S. § 15-977K if any prior year shortfall exists. Otherwise, surplus monies would be carried forward into next fiscal year and factored into CSF per pupil computations for that year.

The \$708 per pupil “cash” and “budget capacity” estimate for FY 2023 does not include adjustments for contingencies related to revenue or enrollment growth. Current law does not make provisions for such adjustments.

Estimated Classroom Site Fund Per Pupil Allocation for FY 2023

JLBC Staff
3/30/2022

Notes:

1. "Sales Tax" revenue estimates assume 13.8% growth in FY 2022 and 4.0% in FY 2023.
2. "Education Sales Tax Expenditures" estimates for FY 2022 and FY 2023 are based on the distribution formula in A.R.S. §42-5029.02A.
3. "Endowment Earnings" estimates for FY 2022 and FY 2023 are based on currently available trust land data from the State Treasurer and State Land Department.
4. "Weighted Student Count" estimates for FY 2022 and FY 2023 are from ADE and include ASDB and DJC, which also receive CSF funding.
5. The "Cumulative Prior Year Shortfall Per Pupil" amount equals the difference between "cash" and "budget capacity" that schools have received from the Classroom Site Fund (CSF) cumulatively since its inception in FY 2002 (no difference currently

	FY 2021	(original) FY 2022	(revised) FY 2022	(estimated) FY 2023
Education Sales Tax Revenues				
Sales Tax	922,244,900	942,373,900	1,049,514,700	1,091,495,300

Education Sales Tax Expenditures

SFB Debt Service	-	-	-	-
Basic State Aid Distribution	-	64,100,000	64,100,000	64,100,000
Universities	110,669,400	105,392,900	118,249,800	123,287,400
Community Colleges	27,667,300	26,348,200	29,562,400	30,821,900
Tribal Assistance	1,074,900	1,058,200	1,086,400	1,240,800
Additional School Days	86,280,500	86,280,500	86,280,500	86,280,500
School Safety	7,800,000	7,800,000	7,800,000	7,800,000
Character Education Matching Grants	200,000	200,000	200,000	200,000
Accountability Measures / SAIS	7,000,000	7,000,000	7,000,000	7,000,000
Failing Schools Tutoring Fund	1,500,000	1,500,000	1,500,000	1,500,000
Income Tax Credit for Sales Tax Paid	25,000,000	25,000,000	25,000,000	25,000,000
Classroom Site Fund	655,052,800	617,694,100	708,735,600	744,264,700
Total (sales tax only)	922,244,900	942,373,900	1,049,514,700	1,091,495,300

Classroom Site Fund Revenues

Education Sales Tax	655,052,800	617,694,100	708,735,600	744,264,700
Endowment Earnings	107,142,200	123,167,700	117,433,700	128,463,900
Prior Year Carryforward	65,500,600	287,586,200	258,009,200	123,613,300
Total Estimated Revenues	827,695,600	1,028,448,000	1,084,178,500	996,341,900

Classroom Site Fund Expenditures

Total Estimated Revenues	827,695,600	1,028,448,000	1,084,178,500	996,341,900
Less: Backpayments for Prior Year Shortfalls	-	-	-	-
Less: Carryforward to Next Year	(258,009,200)	(51,422,400)	(123,613,300)	(49,817,100)
Net Revenues Available for Current Year	569,686,400	977,025,600	960,565,200	946,524,800
Weighted Student Count	1,342,835	1,333,720	1,311,250	1,337,576
Available Funding Per Weighted Pupil -- Cash	\$425	\$733	\$733	\$708
Cumulative Prior Year Shortfall Per Pupil	\$0	\$0	\$0	\$0
Available Funding Per Weighted Pupil -- Budget Capacity	\$425	\$733	\$733	\$708