

FY21 Executive & JLBC Baseline Budgets

The Governor and Legislature prepare budgets for the coming fiscal year. Working from the current years' budget, they consider all the ongoing statutory and program obligations as well as make projections as to inflation, caseload or enrollment growth and available revenue. It's important to remember while examining these budgets is the Governor's budget office (OSP) and Legislature's (JLBC) may be using different estimates in determining required ongoing spending and revenue levels. The largest difference between the two budgets is the Governor's will always contain new spending initiatives while the Legislature only look at baseline (or required) spending. This document demonstrates how those differences create the starting point for budget negotiations between the Governor and the Legislature. The analysis only looks at programmatic and formula funding and does not include changes to the Department of Education's operating budget.

Basic State Aid Adjustments

General Fund		Exec	JLBC	Difference
<i>FY2020 Appropriation</i>	\$4,518,685,300			
Enrollment Growth ¹		\$24,327,900	\$74,098,600	(\$49,770,700)
Inflation Adjustment ²		\$131,703,000	\$121,571,400	\$10,131,600
Property Taxes - New Construction ³		(\$59,684,500)	(\$48,269,000)	(\$11,415,500)
Increased Endowment Earnings ⁴		(\$10,755,900)	(\$10,123,500)	(\$632,400)
Teacher Salary Increase ⁵		\$124,500,000	\$174,500,000	(\$50,000,000)
ESA Enrollment ⁶		\$1,541,600	\$33,048,700	(\$31,507,100)
Additional Assistance ⁷		\$67,774,600	\$0	\$67,774,600
Sub-Total		\$279,406,700	\$344,826,200	(\$65,419,500)
Permanent Fund (Land Trust)				
<i>FY2020 Distribution</i>	\$290,489,100			
FY2020 Growth - Estimated ⁴		\$10,755,900	\$10,123,500	\$632,400
Prop 301 - Ongoing	\$86,280,500	\$0	\$0	\$0
Local Property Tax Revenue				
<i>FY2020 Base - Estimated</i>	\$2,619,634,300			
Property Taxes - New Construction ³		\$59,684,500	\$48,269,000	\$11,415,500
Sub-Totals	\$7,224,600,100	\$349,847,100	\$403,218,700	(\$53,371,600)
TOTALS		\$7,574,447,200	\$7,627,818,800	(\$53,371,600)

Adjustments are made annually to several components of the formula due to inflation, enrollment and tax revenues, among others. There are slight differences between the Executive and Baseline budgets as demonstrated in table above. OSPB tends to underestimate while JLBC is far more conservative. The Executive always wants more money available for their initiatives. Each component is described below:

1. *Enrollment* - Both JLBC and OSPB annually estimate how much growth in enrollment will occur in the coming year based on past growth and current projections. For many

years, projections were based solely on base enrollment growth, but now calculations for “higher cost students” are utilized as well. This category includes students who generate additional funding in the formula such as pupils with disabilities and English learners as well as charter students, whose funding comes only from the state and receives no local tax revenue. As you can see from the table, the estimates are very different with the OSPB assuming 1.1% growth and JLBC assumes 1.4% growth but uses several calculations to include higher cost pupils.

2. *Inflation Adjustment* – Statute requires the base per pupil amount (Base Level) to be adjusted annually for inflation using a statutory formula. Differences in the amount of inflation between the two budgets are usually eliminated by the time negotiations start. The difference results from preparing the budget recommendations before the end of the year. Estimates are extremely close this year with the Executive using 1.88% and JLBC 1.77%.
3. *Property Taxes – New Construction* – The GF obligation is reduced by any increase in local tax revenue resulting from new construction being added to the tax rolls. Due to property tax limits, taxing authorities do not benefit from increased revenue from existing property.
4. *Increased Endowment Earnings* – Higher distributions from the Permanent Fund (Land Trust) lowers the GF obligation.
5. *Teacher Compensation* – A teacher compensation package was adopted in the FY19 budget to for teacher salary. This years’ portion will complete the multi-year appropriation. The goal was to provide a 20% average salary increase by 2020, the funding is included in the base formula by increasing the Base Level in addition to the annual inflation increase.
6. *ESA Enrollment (Empowerment Scholarship Accounts)* – Increases for formula increases and growth in ESA recipients. OSPB and JLBC use very different methods in calculating the cost of the growth with JLBS using the average cost per ESA recipient and OSPB contemplating an offset of monies to districts and charters by new ESA recipients leaving a traditional school setting and using ESA monies.
7. *Additional Assistance* – One of the several reductions in education funding during the recession included a suspension of the Additional Assistance funding formulas for districts and charters. In FY18, over \$380 million of formula was not funded. In the FY19 budget, a five-year restoration plan was included with full restoration expected in FY23. Last year, the budget accelerated the restoration by doubling the approved increase (\$67.8 million) to \$135.6 million. OSPB includes the annual increase while JLBC does not. JLBC’s budget counts last years acceleration as pre-payment of the FY21 increase.

Other Formula Issues/Adjustments

	Exec	JLBC	Difference
Additional State Aid ¹	\$18,952,700	\$15,858,300	\$3,094,400
Accelerate Additional Assistance ²	\$135,549,200	\$0	\$135,549,200

TOTALS \$154,501,900 \$15,858,300 \$138,643,600

1. *Additional State Aid* – School districts are limited in the revenue they may receive from local property taxes in several ways, Additional State Aid backfills any primary property taxes lost due exceeding 1% of the full cash value of a home after the Homeowner Rebate. The recommendations differ only slightly.
2. *Additional Assistance* – (See above for full description) The Executive proposes fully restoring Additional Assistance funding by including an additional \$135.5 million on top of the FY21 increase of \$67.8 million. As this is a new spending proposal, it is not included by JLBC.

Non-Formula Programs - Executive Increases

As noted earlier, the Executive proposal contains spending proposals. The table and descriptions below are increased spending for existing programs.

Alternative Teacher Development ¹	\$500,000
College Credit by Examination ²	\$2,118,400
Gifted Education ³	\$1,000,000
Jobs for AZ Graduates (JAG) ⁴	\$400,000
Results-Based Funding ⁵	\$34,740,300
School Safety Grants ⁶	\$38,000,000
TOTAL	\$81,758,700

1. *Alternative Teacher Development Program* – Existing \$500,000 – proposed increase of \$500,000 – total \$1 million. The program established an alternative teacher development program to accelerate the placement of highly qualified individuals into low income schools. Monies are distributed to the Teach for America program.
2. *College Credit by Examination Incentives* – Existing \$5 million - proposed increase of \$2.1 million – total \$7.1 million. Program provides incentive bonuses to teachers, school districts and charter schools for students who obtain a passing score on a qualifying examination for college credit while in high school. Bonus amounts are based on the percentage of Free & Reduced Lunch population (\$450/ 50% FRL - \$300 if lower). Bonuses are proportionally reduced if the appropriated amount is less than the bonuses earned.
3. *Gifted Education* – FY20 budget included a one-time appropriation of \$1 million, the Executive proposal makes the \$1 million permanent in FY21 and going forward. This funding is meant to support for gifted programs as provided for in statute. Until FY19, no monies were appropriated since before the recession.
4. *Jobs for Arizona's Grduates (JAG)* – Existing \$100,000 – proposed increase of \$400,000 – total \$500,000. Monies go to a non-profit organization to administer.
5. *Results-Based Funding* – Current \$72.6 million – proposed increase of \$34.7 million – total \$107.3 million. Initially established to provide schools with additional funds based on the state's A-F accountability system. High performing schools would receive a per

pupil amount determined by the school's FRL percentage. The Governor's proposal expands the program to include schools receiving a letter grade of "B." In practice the budget has included language to replace A-F with language basing the awards on scoring on the statewide assessment. FY20 awards:

- a. 60% FRL - \$400 per pupil for schools scoring in the top 13% OR alternative schools in the top 27%
 - b. Below 60% FRL - \$225 per pupil for schools scoring in the top 13% OR alternative schools in the top 27%
6. *School Safety Program* - Existing GF \$24.1 million/Prop 301 \$7.8 million - proposed increase \$38 million - total GF \$62.1 million/Prop 301 \$7.8 million. Initially established in 1995, the School Safety Program allowed schools to apply for grants funding school resource officers (SROs) and juvenile probation officers. Last year the program was expanded, with additional funds, to include counselors and social workers. Monies are distributed using a 3-year grant cycle. Even with the additional funds, Ade was unable to grant all the requests. The proposed increase would provide monies to meet those needs.

Executive Initiatives - New Programs

1. *Closing the Achievement Gap (Project Rocket)* - \$43,614,500 - Expands a school turnaround pilot program at the State Board of Education using a school improvement model supporting educators and students in increasing student achievement. Provides the \$43.6 million, at \$150 per pupil, for three years to close the achievement gap in eligible schools ("C" schools with 60% FRL and all "D" & "F" schools). Priority will be given to Beat the Odds Leadership Academy but can be used to implement any proven turnaround strategy.
2. *College Placement Fee Waiver* - \$1,186,800 - Provides low-income students who take exams qualifying for college credit with fee waivers.