

Current Year Funding Impact Summary & Implementation

December 15

2015



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Superintendent
of Public
Instruction
Diane M.
Douglas



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Fiscal Impact Summary

During the 2015 Regular Legislative Session “student count” was redefined as the Average Daily Membership (ADM) of the Budget Year. School districts will no longer be funded on prior year 100th day ADM, i.e., for Fiscal Year 2016-2017, the student count upon which the budget capacity will be based will be the Fiscal Year 2016-2017 100th day ADM. Laws 2015, 1st Regular Session, Chapter 15, Section 4 amended A.R.S §15-901(A)(13) as follows:

13. "Student count" means:

- (a) Through June 30, 2016, average daily membership as prescribed in this subsection for the fiscal year before the current year, except that for the purpose of budget preparation student count means average daily membership as prescribed in this subsection for the current year.
- (b) Beginning July 1, 2016, average daily membership as prescribed in this subsection for the current year.

This impacts school districts’ ADM, special education (SPED), and English language learner (ELL) numbers. Other factors, including route miles, eligible students, and Teacher Experience Index (TEI) remain unchanged, as prior year values.

Current Year funding analysis completed based on Fiscal Year 2014-2015 data. Due to transition to AzEDS student data submission, Fiscal Year 2016 40th day ADM is not being used.

In the Fiscal Year 2015 analysis:

- FY 2015 Assessed Valuations, Base Level Amount (BLA), and QTR are used.
- FY 2014 route miles, eligible students, and teacher experience data are used.
- All district sponsored charter schools are treated as district schools.
- No Lump Sum or other temporary reductions are included.
- BLA increases for CL and OPIP are excluded. Associated increases to the qualifying tax rate are also excluded.
- Type 03 high school counts and tuition amounts are excluded.
- Elementary schools with State Board of Education (SBE) authorization to instruct high school – high school counts are included.
- Sudden Growth included in Prior Year Funding. For Current Year, Sudden Growth = 0
- Small Isolated included in both.
- TEI included in both.
- Transportation formula is unchanged. Existing TSL and TRCL from apportionment system is used.



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For Fiscal Year 2014-2015, expenditure capacity for 149 school districts would have been \$40 million less had Current Year funding been in place. This impacts the Maintenance & Operations and Unrestricted Capital Funds. The expenditure capacity for 83 school districts would have been increased by \$7.2 million.

Ability to expend:

Districts with Reduced Budget Capacity: 149	(39,974,217)
Districts with Increased Budget Capacity: 83	7,180,655
Net change in expenditure capacity:	(32,793,563)

State Aid:

Districts with Reduced State Aid: 125	(30,747,370)
Districts with Increased State Aid: 63	6,509,413
Net change in State Aid:	(24,237,956)

Qualifying Levy:

(8,555,606)

For 44 non-state aid and partial state aid school districts, reduced expenditure capacity in the amount of - \$8,555,606 will result in reduced property taxes.



Fiscal Year 2016 – 2017 Current Year Funding Planned Implementation

During the 2015 Regular Legislative Session “student count” was redefined as the Average Daily Membership (ADM) of the Budget Year. School districts will no longer be funded on prior year 100th day ADM, i.e., for Fiscal Year 2016-2017, the student count upon which the budget capacity will be based will be the Fiscal Year 2016-2017 100th day ADM. Laws 2015, 1st Regular Session, Chapter 15, Section 4 amended A.R.S §15-901(A)(13) as follows:

13. "Student count" means:

- (a) [Through June 30, 2016](#), average daily membership as prescribed in this subsection for the fiscal year before the current year, except that for the purpose of budget preparation student count means average daily membership as prescribed in this subsection for the current year.
- (b) [Beginning July 1, 2016](#), average daily membership as prescribed in this subsection for the current year.

This impacts school districts’ ADM, SPED, and ELL numbers. Other factors, including route miles, eligible students, and Teacher Experience Index (TEI) remain unchanged, as prior year values.

• Definitions

- ADM means 100th day (or 200th day) Average Daily Membership and Group B add-on counts (SPED and ELL) for Fiscal Year 2016-2017.
- Budget year means the fiscal year.
 - In June 2016, when preparing for Fiscal Year 2016-2017, the budget year is Fiscal Year 2017.
 - In July 2016, when working in Fiscal Year 2017, the budget year is Fiscal Year 2016-2017.
- Department means the Arizona Department of Education.
- District means a school district or charter district.
 - District means an administrative level entity under which one or more traditional or charter schools are operated.
- Student count means the 100th day or 200th day ADM for the budget year.
- Type 03 School District means an elementary school district which is not located within the boundaries of a union high school district.



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- **Budget forms will remain virtually unchanged, except for references to Prior Year ADM or amendments to statute which may occur during an upcoming legislative session.**
 - Student count has been redefined to mean the ADM for the year in which you are operating or in the case of budget planning, the year for which you are planning.
 - Arizona Revised Statutes, Title 15 continues the use of prior year Transportation Information and Teacher Experience Index.
 - Tuition for high school students from Type 03 School Districts (elementary school districts not within a union high school district) must still be based on the prior year's attending high school ADM from the Type 03 School District.
 - Under Current Year funding, there are no current provisions which will allow for increasing the number of high school students for which tuition is charged.
 - The number of high school students from Type 03 School Districts for which tuition may be changed cannot be increased unless the Type 03 School District increases its Revenue Control Limit (RCL) and District Support Level (DSL) for Sudden Growth, A.R.S §15-948.
 - Under Current Year funding Sudden Growth will always be zero. Making it impossible for a Type 03 School District to increase its DSL and RCL.
 - The student count upon which the Fiscal Year 2016-2017 budget is based will equal the Fiscal Year 2016-2017 100th day ADM.
 - School districts must project the ADM, SPED, and ELL counts for purposes of completing the Fiscal Year 2016-2017 budget worksheets. (See additional information below.)
 - Budget forms will be issued after the end of the regular legislative session or special session if applicable.
 - Length of delay in the issuance of the forms after Sine Die is subject to the difficulty of any amendments which may be made to statute or included as session law.



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- **All school districts must project student counts for Fiscal Year 2016-2017**
 - Each school district must estimate the student count upon which it will base its Fiscal Year 2016-2017 budget and property tax rates. Budgets must still be proposed and published by July 5, 2016 and adopted by July 15, 2016. It is critical that the estimation of Fiscal Year 2016-2017 ADM, SPED, and ELL values are given significant attention.
 - Conservatively estimated student counts may:
 - Result in insufficient revenues if the actual number of students is greater than the estimate.
 - Result in an allowed Maintenance & Operations Override or Special Override which is less than the voter approved percentage if a greater number of students enroll than are estimated.
 - Overrides may not be increased after tax rates are set.
 - Overly optimistic estimated counts may:
 - Result in revenues in excess of actual need.
 - Result in over-expenditures if budget and expenditures are not reduced to correspond to the lesser number of students enrolled.
 - Final, actual student counts (ADM, SPED, ELL) will not be known until completion of the Fiscal Year 2016-2017 statewide recalculation at the end of July 2017.
 - State aid and budget capacity will be adjusted throughout the year and following the statewide recalculation of ADM and state aid, to be completed in August 2017.
 - Property tax rates will likely be set for Fiscal Year 2017-2018, prior to the final Fiscal Year 2016-2017 expenditure capacity being known.



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- **Fiscal Year 2016-2017 100th day ADM, SPED, and ELL**
 - Calculation of Current Year projected 100th day (200th day) ADM by the Department will begin for school districts and charter districts after the submission of student data and an instructional calendar for the budget year (Fiscal Year 2016-2017).
 - School districts and charter districts must submit initial student data, using a Student Information System (SIS), for the budget year in June preceding the start of the fiscal year.
 - Vendors must modify SIS to allow for submission of student data for the subsequent year (and prior year's data also) without impeding the maintenance and updating of current year student data. (Technical requirement must be implemented by all SIS vendors for successful August 1, 2016 payment.)
 - An instructional calendar must be input and activated no later than June 30, 2016 and prior to the submission of any student data.
 - AzEDS / ACE will begin calculation of projected 100th day for districts on July 1.
 - To be eligible for an August 1st apportionment of state aid, in addition to other requirements which may exist, instructional calendars and student data must be submitted no later than June 30.
 - The August 1 state aid payment will be based on the results of the first processing which will begin on July 1.
 - Each payment will be based on projected 100th day ADM, SPED, and ELL numbers until the 100th day of instruction. After reaching the 100th day of instruction, actual 100th day values will be calculated.
 - As student data is submitted and processed, ADM, SPED, and ELL numbers will be updated to reflect the most current student data available.
 - Even though your school district knows its 100th day ADM, SPED, and ELL in late winter or early spring, students from all over the state participate in Arizona Online Instruction (AOI) and possibly in a Dropout Recovery Program (DRP). AOI and DRP are able to generate ADM and SPED on any day of the fiscal year. A student who has completed the first 100 days of instruction in your school district might still enroll in an AOI or DRP, generating funding ADM and SPED which will reduce your school districts portion of ADM, SPED, or ELL for that student pursuant to the limiting requirements of A.R.S. §15-901.



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- **Budget Analysis**

- Budget analysis will be performed and notification will be made by October 30, based on student data available at the time of the most recent apportionment of state aid, prior to the generation of the expenditure analysis report (BUDG25).
 - Student data submitted through August 2016, processed in early September, will be the basis for ADM, SPED, and ELL used in the October 1 apportionment of state aid calculation.
 - It is imperative that all student information be submitted by the end of August, to insure that the most accurate budget analysis can be performed.
 - Statute currently requires school districts which have budgeted in excess of the Department calculated budget limits to reduce budgets no later than December 15.
 - Statute does not currently allow for exceptions for growing school districts which later may be allowed to revise upward.
 - Declining school districts must be mindful that even though the budget meets statutory specifications based on student data available at the time, declining ADM over the course of the year will result in reduce expenditure capacity, requiring the budget and expenditures to be reduced later in the year to avoid being over-expenditures.
 - Keep in mind that the final ADM, SPED, and ELL values will not be available until after the statewide recalculation in July 2017, after the end of the fiscal year.



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- **State Aid**

- Each State Aid, Instructional Improvement Fund, and Classroom Site Fund payment will be based the most recent calculation of Current Year ADM.
 - The school district apportionment system (APOR) will default to the 100th day ADM for FY 2017, as no programming is currently included to use 40th day ADM. Minimal programming changes are being made to the school district apportionment system due to minimize testing of changes and to reduce the risk of unexpected results.
 - Changes in ADM will result in year to date adjustments as each payment occurs. Positive and negative adjustments will be used to insure that school districts have received the year to date amount due as listed in the following table.

Year to Date Due		
Payment #	Payment Date *	Y T D Due
1	August 1	8.333%
2	September 1	16.667%
3	October 1	25.000%
4	November 1	33.333%
5	December 1	41.667%
6	January 1	50.000%
7	February 1	58.333%
8	March 1	66.667%
9	April 1	75.000%
10	May 1	83.333%
11	June 1	91.667%
12 **	June 30	100.000%
13	Rollover	
14	Recalculation	

* If the payment date falls on a Saturday, Sunday, or holiday, payment will be made on the subsequent weekday which is not a holiday.

** June 30 or the last day of business in June

- The final scheduled adjustment will be in August 2017, after the completion of the fiscal year statewide recalculation of ADM, SPED, and ELL for Fiscal Year 2017.



School District Current Year Funding Concerns

The School Finance Division of the Arizona Department of Education has identified the following concerns or likely issues that districts will be challenged with as the state transitions to current year funding in Fiscal Year 2017.

[Laws 2015, 1st Regular Session, Chapter 8 \(SB1469\), Section 142
General Appropriations, 2015-2016](#)

\$930 million rollover

Allocation to each school district would change every month, as student enrollments and withdrawals are submitted. However, system limitations prevent the allocation from being updated every month. The allocation of the \$930 million reduction is targeted to begin with the August 1st apportionment of state aid and will be adjusted two or three times during the year, with the last reallocation possibly occurring for the April 1st or May 1st apportionment payment. Distribution of withheld amounts will occur in early July. Under prior year funding, the allocation can be determined in the first few months of the year.

[Laws 2015, 1st Regular Session, Chapter 15 \(SB1476\), Sections 11 & 12
K-12 Education; Budget Reconciliation; 2015-2016.](#)

\$380 million lump sum reduction to District Additional Assistance (DAA)

The requirement for Fiscal Year 2015-2016 is to reduce state aid by \$352,442,700. To accomplish this, combined school district DAA must be reduced by over \$381 million. Even though the allocation would change with changes in student counts, the initial reduction is planned for the August 1st payment, with two, possibly three reallocations occurring over the remainder of the year. The final allocation cannot be completed until the statewide recalculation is completed in August, following the end of the year.

Currently, for Fiscal Year 2015-2016, school districts with a student count greater than 1,100 are reduced by 84.4%. School districts with a student count of less than 1,100 are reduced by 31.7%.

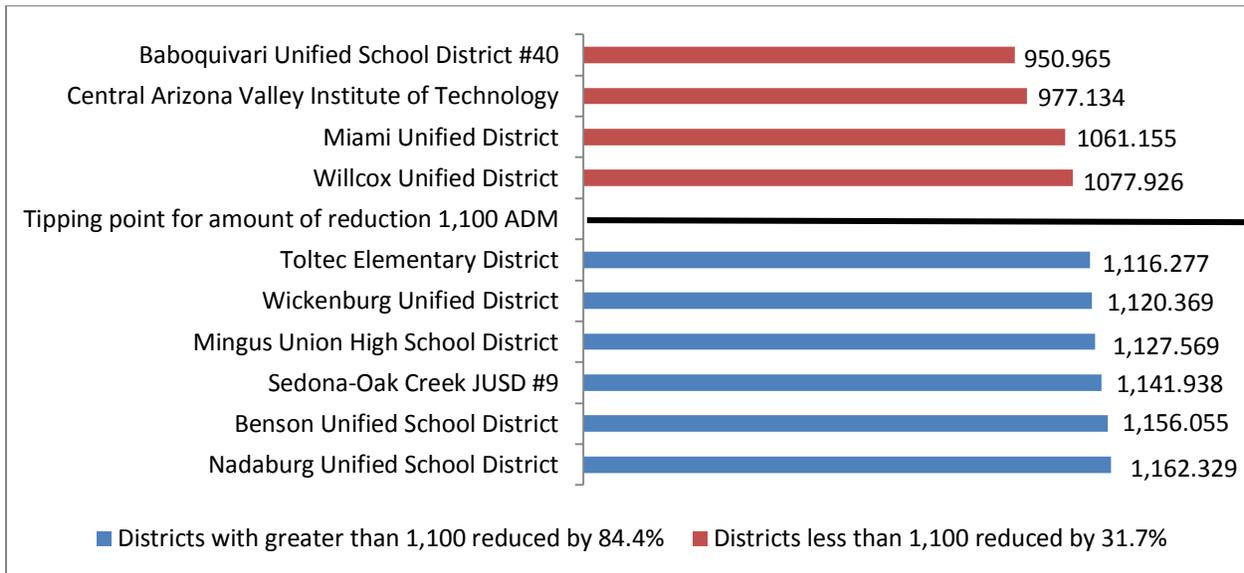
There are a few school districts which could begin the Fiscal Year with a reduction of 31.7%, but end the year with a reduction of 84.4%. The converse is also possible. For example, if a school district were to drop below a student count of 1,100 by the end of the year, their reduction would drop to less than 31.7%. In this scenario, all school districts with a student count of less



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than 1,100 would gain. The reduction for school districts under a student count of 1,100 is limited to \$5 million. This \$5 million would be reallocated to all school districts including any school district which dropped below a student count of 1,100. The resulting percent of reduction would be smaller than 31.7. The reduction for those school districts with a student count greater than 1,100 would increase to account for the portion previously allocated to the district(s) which dropped below a student count of 1,100, resulting in a reduction greater than 84.4%. Below is a sample of FY 2016 student counts for some districts that could be affected.



[15-481. Override election; budget increases; notice; ballot; effect](#)

[15-482. Special five per cent override for programs of pupils in kindergarten programs and grades one through twelve](#)

M&O and Special Overrides

Budget overrides are funded by a property tax levy. Once levied there are no provisions for increasing the override, even if the Revenue Control Limit increases above the amount upon which the budget was built and adopted. There are no revenues available to fund the increased expenditure capacity. However, for declining school districts, budgeted override amounts will be reduced to reflect voter approved percentages of the Revenue Control Limit, leading to excess revenue being collected.



15-824. Admission of pupils of other school districts; homeless children; tuition charges; definitions

Type 03 High School Tuition

Elementary school districts which are not located within a union high school district must pay tuition to one or more neighboring unified or high school districts for the education of high school students residing within the elementary district.

Tuition must be based on the Average Daily Membership (ADM) generated in the prior year at the school district of attendance. The number of high school students for which tuition is charged cannot be increased unless the elementary school district increases its Revenue Control Limit (RCL) for Sudden Growth (A.R.S §15-948). Under current year funding the formula for sudden growth will always result in zero. The RCL will never be increased under current year funding.

15-948. Adjustment for growth in student count

Sudden Growth

Sudden growth will always equal zero under current year funding; therefore, is it needed?

15-949. Small school districts; exemption from general budget limit; budget revision

Small School Adjustment

Small School Adjustment allows school districts with a K-8 student count less than or equal to 125 and/ or a school district with a 9-12 student count of less than or equal to 100 to budget based on need, without an election, without regard to statutory limitation.

Amount may only be increased due to higher than expected student enrollment and a recommendation for approval from the county school superintendent to the county board of supervisors, and with approval of the County Board of Supervisors. A hearing is required. No funding source for the increase is specified.

Under the current statute, eligibility will not be known until the statewide recalculation is performed following the end of the Fiscal Year. Current Status:

- A few districts have budgeted in excess of \$1 million
- Three districts are very close to 125/100 ADM
- Two could lose eligibility after the end of the year



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- One could gain eligibility after the end of the year, but would not have the opportunity to take advantage of this option.

FY 2015 ADM		
McNary Elementary District	010323000	122.72
Morristown Elementary District	070375000	124.19
Concho Elementary District	010306000	128.93

[15-977. Classroom site fund; definitions](#)

[15-979. Instructional improvement fund](#)

With almost 90% of the K-12 population in school districts, the prior year basis provides greater stability in payment amounts for both Classroom Site Fund (CSF) and Instruction Improvement Fund (IIF).

For CSF this would only be an impact in years or the portion of years in which revenues do not match need (July and August revenues may be considerably less than revenues in November through January or total annual revenues may be insufficient). The final apportionment of CSF may need to be delayed until after the statewide recalculation of ADM is completed, in August following the end of the Fiscal Year.

IIF is based solely on each school district’s and charter district’s proportionate share of statewide student count. The second and final apportionment of IIF may need to be delayed until after the statewide recalculation of ADM is completed, in August following the end of the Fiscal Year.

[15-991. Annual estimate by county school superintendent of monies for ensuing year; review and approval by property tax oversight commission](#)

Certification of property tax amounts.

Requires a county school superintendent to certify to the Property Tax Oversight Commission, by July 25, the amount of equalization assistance for education and the minimum tax would be. This will be before the first day of school in most cases. Student count upon which the amounts are based will not be known until August, almost 13 months later.

Other certifications by the county school superintendent are also required.



15-992. School district tax levy; additional tax in districts ineligible for equalization assistance; definition

Minimum Tax

A minimum property tax equal to 50% of the QTR must be levied. Amounts in excess of the amount necessary to fund the equalization formula are transmitted to the state general fund. Student count upon which these amounts are based will not be known until August, 12-13 months later.

Teacher contracts

Title 15, Chapter 5, Article 3 addresses teacher contracts. While a deadline for offering the contracts is no longer specified, contracts must still be entered into. Once signed, the school district must honor the contracts whether the projected number of students enrolls and the projected ADM materializes. Over or under-estimating the ADM could leave school districts with contract obligations which cannot be reduced sufficiently to avoid an over-expenditure.

Federal Concerns: Maintenance of Effort

For Fiscal Year 2016-2017, under prior year funding, declining school districts will see a decline in funded student count, from the Fiscal Year 2014-2015 100th day Average Daily Membership (ADM) to the Fiscal Year 2016-2016 100th day ADM. The equalization assistance would decline proportionately.

Under current year funding, for Fiscal Year 2016-2017, declining school districts will see a 2 year decline in funded student count, from the Fiscal Year 2014-2015 100th day ADM to the Fiscal Year 2016-2017 100th day ADM. This will result in a proportionate decline in funding. Under current year funding the basis will be Fiscal Year 2016-2017 ADM. In either scenario, the Fiscal Year 2016-2017 ADM will be used as the denominator in the determination of expenditures per pupil (ADM).

The numerator decreases by an amount equivalent to a two year drop in funding, while the denominator drops by a single year.



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Maintenance of Effort compares Per ADM Expenditures for 2 consecutive years:

Expenditures ÷ ADM

Continuing prior year funding:

Expenditures of Funding based on FY 2016 ADM ÷ FY 2017 ADM

Compared to

Expenditures of Funding based on FY 2015 ADM ÷ FY 2016 ADM

Conversion to current year funding:

Expenditures Funding based on FY 2017 ADM ÷ FY 2017 ADM

Compared to

Expenditures of Funding based on FY 2015 ADM ÷ FY 2016 ADM

This will impact LEA Maintenance of Effort and the state level Maintenance of Effort. IDEA provides no exceptions to Maintenance of Effort, per ADM expenditures must not drop.