

ARIZONA

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I. GENERAL BACKGROUND

State

The state share of school district revenues is estimated to be 47.0% in 1998–1999. The principal source of state revenue for the public schools is the state general fund. The major revenue sources for the state general fund are sales and income taxes. In addition, 1998–1999 state land revenues are estimated to generate about \$73.9 million. For 1998–1999, the general fund appropriations for K–12 public education totaled \$2,612.3 million, of which \$2,579.6 million was for assistance to public schools. The state share in the equalization program is estimated to be \$2,048.5 million.

The current state equalization program was enacted in 1980, and modifications were made in 1985. Of the total state assistance to public schools for 1998–1999, 79.4% is for the state equalization program and 20.6% is for categorical and other programs.

Since 1980, local school district expenditures have been limited by statute. The expenditure control provisions in the Arizona program are among the most stringent in the nation.

Since 1981–1982, Arizona has had a constitutional limit on the aggregated *total* spending by all local school districts.

Local

The state has a total of 228 school districts, 6 of which are special districts that have no tax base and serve special populations; these districts have 0.5% of the total ADM for the state. Of the remaining fiscally independent 222 districts, 89

are unified or K–12 districts with 62.3% of the total ADM, 17 are union high school or 9–12 districts with 8.9% of the total ADM, 65 are elementary districts that are part of a union high school district with 26.9% of the total ADM, and 50 are elementary districts not in a union school district with 1.2% of the total ADM. This last group of districts pays the cost of educating its resident high school students on a tuition basis.

Property taxes constitute the sole source of local district tax revenues. Voter approval is not required to levy the qualifying tax rate, but is required for overrides to supplement the foundation program.

Arizona does not have a constitutional limit on local property tax rates, but does have a limitation on the aggregated *total* spending by all local school districts.

Funding Summary 1998–1999

Total State School Aid (All Programs)		\$ 2,579.6 million
Grants in Aid	2,579.6 million	
Teacher Retirement Contributions	0 million	
FICA	0 million	
Total Local School Revenue		\$ 2,384.8 million
Property Tax*	2,384.8 million	
Other local source tax revenue	0 million	
Local source non-tax revenue	0 million	
Total Combined State and Local School Revenue		\$ 4,964.4 million
State Financed Property Tax Credits		
Attributable to School Taxes**		\$ 174.7 million

* Includes \$138 million in County Equalization (see Section II)

** Included in Total State School Aid

II. LOCAL SCHOOL REVENUE

The property tax is the only local revenue source for schools except for in-lieu-of tax payments from a large public utility. The state has two tax levies—the primary levy (which does not require voter approval) and the secondary levy (which does

require voter approval). Of the total 1998–1999 tax levy, \$1,542.7 million was for the primary tax levy, which includes the local share of the state foundation program plus certain expenditures which are allowed outside the foundation program. The secondary tax levy included about \$175 million for voter-approved expenditures above the expenditure limits. Of this amount, almost \$150 million was for maintenance and operation overrides that permitted districts to exceed the spending limits by up to 10%; \$6 million was for voter-approved maintenance and operation overrides for special programs to serve students in grades K–3; and \$19 million was for capital overrides. The remaining \$529 million of the secondary tax levy was for debt service (see Section XV).

The county tax rate of \$0.53 per \$100 of assessed valuation raised \$138 million that was included in the equalized foundation program available to local school districts.

For tax purposes, property is grouped into 13 classes, and tax rates are applied to varying percentages of real value, i.e., owner-occupied residences at 10%; agricultural at 16%; rental property at 10%; mines and utilities at 26%, railroads at 22%, and commercial property at 25%. Determination of values is the responsibility of the county tax assessor. The effect of the property tax on homeowners is reduced because 35% of the primary property tax levy on an owner-occupied residence is forgiven and paid from state funds.

Arizona does not have a state program for comparing assessment practices and determining the equalized assessment values of real property among school districts.

III. TAX AND SPENDING LIMITS

Since 1981–82, Arizona has had a constitutional limit on the *total* spending by all local school districts. The limit is on maintenance and operation or current operations and does not include federal grants, capital levies, or debt service; however, state special projects and federal impact aid payments are included in the limitation. Increases are permitted each year based on the increases or decreases in the number of students and the changes in the gross national product price deflator. The constitution was amended in 1986 to permanently increase the limit by an additional 10%. The limit may be exceeded by vote of a two-thirds majority of the House of Representatives and the Senate, but this approval is required on an annual basis.

In addition to the constitutional limitation, the expenditure control provisions in the Arizona foundation program are among the most stringent in the nation. Irrespective of the taxable property in the individual school district, per-student spending limits for maintenance and operation stipulated in the state equalization program cannot be exceeded except under specified conditions. These conditions include voter approval of a limited-term general 10% override or additional 5% K-3 override and certain items that do not require voter approval. Overrides may be funded from a secondary tax levy or from the district's prior year cash balance. (Districts which fund overrides from cash balances receive large amounts of federal impact aid.) For 1998-1999, \$156 million general maintenance and operation and K-3 overrides were funded with secondary tax levies and \$13 million general maintenance and operation and K-3 overrides were funded from cash balances.

The items that do not require voter approval include court-ordered desegregation, dropout prevention, registered warrants, excess insurance expenditures, excess utility expenditures, and certain expenditures of federal impact aid. In addition, districts with fewer than 100 students in grades K-8 or fewer than 125 students in grades 9-12 are allowed to exceed budget limits. For all districts in the state, the aggregated total 1998-1999 budget for these items outside of the spending limits that do not require voter approval was \$263 million, or about 8% of the total budget for maintenance and operations.

The state has two programs that temper the effect of the property tax. One is the homeowners rebate, under which 35% of the primary property tax levy on an owner-occupied residence is forgiven, and the state rebates the difference to local school districts. The second program provides that, in the event that the total tax liability on a residential parcel exceeds 1.0%, the taxes are reduced to 1.0%, and the state makes up the difference. State funds for these two programs totaled \$174.7 million for 1998-1999.

IV. STATE EARMARKED TAX REVENUE

The only earmarked state source of revenue for school districts is income from state public land. In 1998-1999, revenues for schools generated from this source is estimated to be \$73.9 million.

V. THE BASIC SUPPORT PROGRAM

Funding in 1998-1999: Estimated at \$2,048.5 million.

Percentage of Total School Aid: 79.4%.

Nature of Program: Foundation program, including state funding for maintenance and operation, school transportation, capital outlay, and “soft capital.” For maintenance and operation, the state limits expenditures in all districts except for a group of low-enrollment districts. With the exception of the soft capital funds, state funds are considered to be block grants. School districts are not required to spend specific amounts on specific programs, and the monies allocated for capital outlay may be budgeted for maintenance and operations.

Allocation Units: Pupils. Weighted students in average daily membership (ADM).

Local Fiscal Capacity: Assessed property valuation.

How Formula Operates: The state equalization formula provides \$2,532.60 per weighted student for maintenance and operation (plus additional funding for school transportation, capital outlay, high school textbooks, and soft capital) from a combination of state, county, and local funds.

State Share: The state payment is the difference between the district's formula entitlement and the amount raised by the qualifying tax rate from local and county tax sources.

Local Share: For elementary school districts in a high school district and for high school districts, the local share or qualifying tax rate is \$2.20 per \$100 of assessed valuation; for elementary school districts not in a high school district and for unified school districts, the qualifying tax rate is \$4.40 per \$100 of assessed valuation. (However, local districts are not required to levy the qualifying tax rate as a condition for receiving the state equalization payments.) In addition, the proceeds from a county equalization tax of \$0.53 per \$100 of assessed valuation are included in the equalization calculation.

Weighting Procedures: The weight for students in preschool programs for children with disabilities is 1.450; students in grades K–8 is 1.158, and students in grades 9–12 is 1.268. This basic weight incorporates funding for programs for career exploration, a specific learning disability, an emotional disability, mild mental retardation, remedial education, a speech/language impairment,

homebound, bilingual, preschool moderate delay, preschool speech-language delay, other health impairments and gifted pupils.

Add-on weights are used to provide additional funds for the following categories of students:

<u>Program</u>	<u>Add-On Weight</u>
Hearing handicapped	3.341
K-3	0.040
LEP (limited English proficient)	0.060
Multiple disabilities, autism, and severe mental retardation (resource program)	1.995
Multiple disabilities, autism, and severe mental retardation (self-contained)	5.015
Multiple disabilities with severe sensory impairment	6.025
Orthopedic impairments (resource program)	1.744
Orthopedic impairments (self-contained)	5.641
Preschool severe delay	4.979
Emotional disabilities, mild mental retardation, specific learning disability, speech/language impairment, and other health impairments*	0.003
Emotional Disability (Private)	2.633
Moderate Mental Retardation	2.808
Visual Impairment	4.832

*This weight is applied to all pupils in these programs, but is designed to cover only the costs of extended school year programs for those pupils in these programs who require this service; the remainder of the program costs are included in the basic weight for the grade level.

Students must be eligible and be participants in the programs for the school district to receive the funds, but school districts are not required to expend the funds on the programs or students used to generate the funds. However, federal regulations require that disabled students be provided with a free and appropriate education irrespective of the amount of state funds.

Adjustments for Special Factors: Additional funds are provided for operation of low enrollment and isolated school districts and higher salary costs for more experienced teachers.

Small isolated schools are those that have an ADM of less than 600 and are more than 30 miles from the nearest school that offers instruction in one or more of the same grades and that is operated by another Arizona school district. The grade level weights per ADM in low enrollment and isolated school districts are as follows:

<u>ADM</u>	<u>K–8 Small Isolated</u>	<u>K–8 Small Non-Isolated</u>
1–99	1.559	1.399
100–499	$1.358 + [0.0005 \times (500 - ADM)]$	$1.278 + [0.0003 \times (500 - ADM)]$
500–599	$1.158 + [0.002 \times (600 - ADM)]$	$1.158 + [0.0012 \times (600 - ADM)]$

<u>ADM</u>	<u>9–12 Small Isolated</u>	<u>9–12 Small Non-Isolated</u>
0–99	1.669	1.559
100–499	$1.468 + [0.0005 \times (500 - ADM)]$	$1.398 + [0.0004 \times (500 - ADM)]$
500–599	$1.268 + [0.002 \times (600 - ADM)]$	$1.268 + [0.0013 \times (600 - ADM)]$

The weights, while complicated, are graduated to insure that a district does not lose funding as it increases in size and moves to a lower weight.

A teacher experience index is calculated annually for all teachers in the state, and additional funds are provided to those districts whose recognized teacher experience exceeds the state average. For eligible districts, an index is used to increase the total number of weighted students used in the calculation of the base support level or state equalization payments. The calculated teacher experience index for each district is the average experience recognized in calculating the salary for each of the teachers in the district. The state average is the average for all teachers in the state, not the average of the district experience indexes. For districts whose teacher experience is above the state average, the number of weighted pupils is increased by 2.0% for each year that the district's average is above the state average.

Of the total state funds, \$63.3 million is estimated for additional state funds to “growth” school districts experiencing any student growth in the current year.

Arizona does not have a hold-harmless clause that guarantees basic level support.

Aid Distribution Schedule: Not reported.

Districts Off Formula: 17 of 228 (7.5%). This figure also applies to transportation aid, capital outlay, high school textbook aid, and capital levies since these aids are included in the equalization calculation.

VI. TRANSPORTATION

Funding in 1998–1999: Included in basic support program.

Percentage of Total State Aid: N/A

Description: A district's entitlement is based on the approved daily route-miles for school transportation and the number of eligible students transported from the prior year. Additional funding is provided for academic, vocational and technical education, and athletic trips on an index basis. The following formula is used in calculating a district's transportation support level:

<u>Approved Daily Route-Miles per Eligible Student Transported</u>	<u>State Support Level Per Route-Mile</u>
0.500 or less	\$1.95
0.501 – 1.000	\$1.59
1.001 or more	\$1.95

The index for allocating the additional funds for academic, vocational and technical education, and academic trips is shown in the following table:

<u>Approved Daily Route-Miles per Eligible Student Transported</u>	<u>Factor</u>
K–12 districts and K–8 districts not in a high school district	
0.001 – 1.000	.15
1.001 or more	.18
K–8 districts in a high school district	
0.001 – 1.000	.10
1.001 or more	.12

High school districts	
0.001 – 1.000	.25
1.001 or more	.30

State and Local Shares: State and local shares for school transportation cannot be identified because state payments are included in the calculation of the foundation program.

VII. SPECIAL EDUCATION

The primary state funding for special education is through the add-on weights in the foundation program.

Extended School Year

Funding in 1998–1999: \$0.5 million.

Percentage of Total School Aid: less than 1.0%.

Description: Provides supplemental funding to support extended school year (ESY) services for special education pupils. School districts apply for a grant based upon anticipated costs to provided ESY services as specified in a student's Individualized Education Program (IEP).

Extent of Participation: Approximately 8,000 special education students participate in extended school year services.

Special Education Voucher Programs

The state appropriation to the Arizona Department of Education includes \$14.4 million for special education voucher programs. These programs provide funding for pupils in residential placements, state institutions, and regional service cooperatives administered by the Arizona State Schools for the Deaf and the Blind. This amount is included in the total state appropriation for K–12 education, but it is not included in total state school aid, as it is not distributed directly to school districts or charter schools.

VIII. COMPENSATORY EDUCATION

The state does not provide state funding for compensatory education. Discretionary competitive grants have been used to fund programs and services for at-risk youth in a small number of local school districts. Additional detail on these programs can be found in Section X, Other Categorical Programs.

IX. GIFTED AND TALENTED EDUCATION

Funding in 1998–1999: \$1.3 million

Percentage of Total School Aid: less than 1%.

Description: Funding is provided for grants for additional services to meet the educational needs of gifted pupils. School districts that comply with the statutory provisions related to programs for gifted pupils may apply for additional funding equal to \$55 per pupil for 3% of the student count, or \$1,000, whichever is greater. Of the total funds, \$1.2 million was allocated for direct grants to school districts and charter schools, and \$103,800 is for the State Department of Education to provide staff for technical assistance and support for local school districts.

Extent of Participation: The foundation program also includes an unspecified amount for gifted and talented education; the categorical grants are allocated on an application basis as described above. During the 1998–1999 school year 175 public and 7 charter schools are participating in the gifted support program.

X. BILINGUAL EDUCATION

State funding for limited English proficient students is through an add-on weight in the foundation program.

XI. EARLY CHILDHOOD EDUCATION

Funding in 1998–1999: \$19.5 million.

Percentage of Total School Aid: less than 1%.

Description: As a block grant, \$19.5 million was appropriated in 1998–1999 to provide funding to school districts and charter schools to promote improved pupil

achievement through early childhood programs. These programs include preschool programs for economically disadvantaged children, and programs that serve all public school pupils statewide who are in grades K–3. (The block grant combined three programs formerly funded as separate line items. These programs were Full Day Kindergarten, Preschool At-Risk, and K–3 Support.)

The block grant is allocated based on the number of pupils in grades K–3 in each charter school or school district who were eligible for free lunches during the prior fiscal year under the National School Lunch and Child Nutrition Acts. Schools may request funding through an application process. Schools may use the money in any or all of three areas: (1) preschool programs, (2) supplemental items/services for grades K–3, and (3) full day kindergarten.

Extent of Participation: In 1998–1999, 266 school districts and charter schools received funding under this program.

XII. OTHER CATEGORICAL PROGRAMS

Vocational Education

Funding in 1998–1999: \$11.1 million.

Percentage of Total School Aid: less than 1%.

Description: \$11.1 million is provided in 1998–1999 to support local vocational education programs at school districts. The various programs supported include training in areas devoted to “high demand” occupations; programs that help districts to develop comprehensive vocational programs, beginning in the seventh grade; and statewide technical assistance with vocational student organizations. Eligibility for funding is based on meeting the state standards and requirements. For the high-demand occupations, the state has a priority listing of vocations that serves as the basis for the funding allocation. Eligible school districts receive 90% of the funding based on enrollment in approved occupational programs and 10% based on placements of program completers in jobs or continuing education programs that are directly related to the vocational training received by the students.

Extent of Participation: Approximately 100 school districts received funding under this program in 1998–1999.

School Safety

Funding in 1998–1999: \$7.0 million.

Percentage of Total School Aid: less than 1%.

Description: The purpose of the program is to hire School Resource Officers/Juvenile Probation Officers for establishing positive interaction among students, staff, and law enforcement. Officers are not hired for the sole purpose of enforcement. These officers and the schools where they serve are encouraged to work together as a team.

Funding for the program for each fiscal year is available to all schools districts and charter schools. The Legislative Committee for School Safety makes the annual selection of school districts, charter schools and their funding level. Schools may request funding through an application process. The application must address: (1) a detailed description of the safety needs of the public school or school district, (2) a plan for implementing a law related education program or a plan that demonstrates the existence of a law related education program as a school safety prevention strategy, and (3) a plan to use trained school resource officers or juvenile probation officers in the schools, or both.

Extent of Participation: There were 86 public school districts encompassing 178 sites for which funding was allocated for 1998–1999.

Family Literacy

Funding in 1998–1999: \$1.0 million

Percentage of Total School Aid: less than 1%.

The program provides funding to promote basic academic and literacy skills of low-income adults and their preschool children. Local education agencies and Adult Education programs funded by the Arizona Department of Education are eligible to apply for competitive grants. Selection criteria for grant awards include, at a minimum: the educational needs of the adult population; the incidence of unemployment in the county, district or local targeted school service area; the degree to which community collaboration and partnership demonstrate the ability to bring additional resources to the program; and the readiness and

likelihood of the proposing organizations to establish a successful family literacy project.

An Arizona Family Literacy project must include five components: adult education, parenting support, early childhood instruction, inter-generational learning (parent and child together) and community service for the parent. Eligibility requirements for families include the parents' lack of a high school diploma or lack of fluency in English, and a child or children who are three or four years of age at the time of enrollment. Family Literacy projects require about sixteen hours per week of participation from each parent.

Extent of Participation: For 1998–1999, funds were provided to 13 providers that operated Family Literacy projects at a total of 22 sites. Included within those numbers are two projects that have been designated model projects. The model projects receive additional funding to enable them to mentor the other projects by providing training activities and consultation both on-site and through other means.

Phonics Instruction

Funding in 1998–1999: \$1.0 million.

Percentage of Total School Aid: less than 1%.

Description: Beginning in the 2000–2001 school year, each school district that provides instruction for grades K–3 will be required to adopt reading instruction programs including a researched-based systematic phonics instruction program. Parents of pupils in grades K–3 are allowed to select the reading instruction for their child. Funding is provided to assist school districts in the initial training and continued development of teachers in research based systematic phonics instruction.

Extent of Participation: Funding was provided in 1998–1999 to 144 elementary and unified school districts with a total of 10,014 K–3 teachers. Each district received \$97.36 per teacher.

XIII. TEACHER RETIREMENT

No earmarked appropriation is made for teachers' retirement. Public school teachers and other school district employees are covered under the state public

employees retirement program. All school districts participate in the program. Charter schools are eligible, but not required, to participate in the program. The FY 1998–1999 contribution rate for teachers (which is matched by employers) is 3.34% of the salary, of which 0.49% is for disability insurance and 2.89% is for retirement. The contribution level is reviewed and adjusted periodically. Retirees also may secure health insurance for themselves and their dependents.

Local school districts make the employer’s contribution to FICA and the state retirement fund. The state’s funding requirements and the employees’ share are computed on an annual basis by actuaries to determine if the reserve funds are sufficient to meet the future obligations of the fund.

XIV. TECHNOLOGY

Technology is included in the new “Students FIRST” school capital finance system established in FY 1998–1999. There is no separate state appropriation for technology, nor is any amount earmarked in the Students FIRST program for technology. The School Facilities Board, which is responsible for implementing the Students FIRST program, has not yet made any decisions related to technology standards, nor has it distributed any money for technology.

XV. CAPITAL OUTLAY AND DEBT SERVICE

Funding in 1998–1999: \$310 million

Percentage of Total School Aid: 12.0%.

The “Students FIRST” school capital finance system began in FY 1998–1999. The system is based upon the general premise that the state will provide full funding to insure that all facilities in school districts meet state standards and to provide new facilities needed due to enrollment growth. It allows school districts, within limits, to expend local monies to exceed the state standards or to provide for capital needs that are not included in the state standards. This concept of full state funding for minimum adequacy was layered on top of the previously-existing foundation program, which included funding for capital. Local funds may be used to exceed state standards or for items not covered by the state standards.

Extent of Participation: All school districts participate in the Students FIRST program. Charter schools are exempt from this system and their capital needs are met in a different manner.

Programs to Meet State Standards

Deficiencies Correction Fund (\$35 million). Grants will be distributed to school districts to enable them to bring existing facilities up to state standards. The School Facilities Board must review and award monies to correct all deficiencies by June 30, 2001, and all deficiencies must be corrected by June 30, 2003.

Building Renewal Fund (\$75 million). Monies are allocated to all school districts for building renovations on a formula basis. The formula takes into account the age and student capacity of buildings and the cost of prior renovations.

New School Facilities Fund (\$200 million). Monies are distributed to school districts on a formula basis. The formula is based on the number of pupils that are projected to exceed the current student capacity by a given year. The district is entitled to a certain number of square feet and a certain amount per square foot depending on the grade level of the students. There is a 5% increase for rural districts. The New School Facilities Fund also provides funding for land up to 10 years in advance of the need for the school.

Soft Capital (included in foundation program). The Arizona foundation program includes funding for “soft capital” expenditures from state and local funds. The soft capital amount is \$224.99 per student. Adjustments are made to provide additional funds for low-enrollment school districts. Use of soft capital funds is restricted to short-term capital items and school busses. Districts may expend soft capital monies on “soft capital” items outside the standards or not included in the standards (such as administrative needs) only if they have met the minimum adequacy standards.

Programs to Exceed State Standards or for Items Outside of Standards

Current Funds. The Arizona foundation program includes funding for capital outlay from state and local funds. For capital outlay, the state foundation program guarantees \$225.76 per K–8 student and \$267.94 per 9–12 student. A textbook allowance of \$69.68 per 9–12 student also is included in the calculation. Adjustments are made to provide additional funds for low-enrollment school districts. The capital outlay monies may be used for any capital expenditure, or may be budgeted for maintenance and operation and used for current operations. Districts also may raise funds for capital projects by securing voter approval of a

capital override to have a special levy that permits spending beyond the expenditure limit for up to seven years.

Bonds. Voter approval is required for school districts to issue general obligation bonds for capital outlay purposes. The Arizona Constitution limits the amount of general obligation bonds to 15% of the assessed value of taxable real property in elementary and high school districts and 30% of the assessed value of real property in unified school districts. These bonds are retired with the receipts of a debt service tax rate or current funds. The Students FIRST act reduced the bonding limits for bonds approved after December 31, 1998 (called class B bonds) to 5% of the assessed value of taxable real property in elementary and high school districts and 10% of the assessed value of real property in unified school districts.

Other. Capital outlay expenditures may be funded from accumulated cash reserves for capital outlay, sale of property, gifts, and, for certain districts, cash balances accumulated from unexpended revenues.

XVI. STANDARDS/ACCOUNTABILITY MEASURES

Financial Compliance

All school districts and charter schools are required to comply with the Uniform System of Financial Records (USFR or USFRCS for charter schools) as prescribed by the Arizona Department of Education and the Office of the Auditor General.

School districts and charter schools that receive \$300,000 or more in federal funds are subject to the federal Single Audit Act and must contract for a financial audit annually. Charter schools that are not subject to the federal Single Audit Act are required to have a financial statement audit on an annual basis. A procedural reviewed is performed by the Office of the Auditor General on a rotating basis for those school districts that are not subject to the Single Audit Act.

Each school district and charter school is required to complete a USFR or USFRCS compliance questionnaire at the same time that their single audit, financial statement audit, or procedural review is being performed. The questionnaire is reviewed by the Office of the Auditor General. If the Auditor General determines that a school district or a charter school is out of compliance, the school district or charter school is given 90 days to achieve compliance.

During this period, the school district or charter school may request for assistance from both the Arizona Department of Education and the Office of the Auditor General. Extensions of the 90-day period may be granted by the State Board of Education. If the school district or charter school is still out of compliance after the 90-day period, the State Board has the authority to withhold further distribution of state funds until compliance is achieved.

Student Achievement Compliance

All school districts and charter schools are required to comply with state policies regarding assessment of pupils and academic progress as adopted by the Arizona State Board of Education. These include administration of the Arizona Instrument to Measure Standards (AIMS), administration of a nationally norm-referenced test (Stanford 9), and distribution of school report cards to parents of pupils enrolled in the school.

Students in grades 3–12 are required to take the Stanford 9 test on an annual basis covering reading vocabulary, reading comprehension, mathematics (problem solving and procedures) and language. Beginning with the graduating class of 2002, students will be required to pass Arizona's Instrument to Measure Standards (AIMS) in order to earn a high school diploma. AIMS is a criterion-referenced test whose purpose is to measure student knowledge of and ability to apply the Arizona Academic Standards in reading, writing and mathematics. Students must begin to take the high school AIMS their sophomore year and are allowed five opportunities to pass the exam. Once they demonstrate proficiency on one of the sub-tests (reading, writing, or mathematics), they are not required to retake that sub-test. AIMS exams for the third, fifth, and eighth grade will also be administered but not as a promotional requirement.

In addition to administering the above tests, school districts are required to file a District Assessment Plan (DAP). The DAP consists of two parts. Each year, districts are required to submit a report showing the number of children attempting and the number of children accomplishing each of the two language arts and six mathematics standards. Results can be reported by standard or by concept. The second part is a narrative describing how the district is aligning curriculum, instruction, assessment and staff development with the Arizona Academic Standards. Within the narrative, districts also discuss methods for communicating their strategies with parents and cite their assessment methods. The State Board of Education is required to establish intervention strategies to

assist those school districts that have test scores below acceptable standards as determined by the Arizona State Board of Education.

All school districts and charter schools are required to implement a school report card for each of their schools. The report card must include information such as: 1) academic goals of the school; 2) a summary of pupil test scores on AIMS and Stanford 9; 3) a summary of pupil progress on an ongoing basis; 4) per pupil expenditures; 5) attendance rate; 6) pupil enrollment; 7) responsibility of the school to the parents of the enrolled children; and 8) responsibilities of the parents of the enrolled pupil. Each school is responsible for distributing the report cards to parents of the pupils enrolled in the school.

XVII. REWARDS/SANCTIONS

A+ Program

The A+ incentive program is being implemented for the first time in 1998–1999. It allows school districts and charter schools to increase their base level funding based on the outcome of two statewide performance indicators – student achievement and parental satisfaction. A sample of school districts and charter schools is selected to complete the performance indicators. The results of the performance indicators are reported only at the state level.

The student academic achievement measure is based on the percentage of students in a random, statewide, representative sample of students who score in the “Excellent” category on the Stanford 9 Achievement Test (SAT9). For the purposes of the A+ program, the “Excellent” category is equivalent to the “Advanced” performance standard on the SAT9. Performance standards represent levels of proficiency and provide information about the skill level of students at every grade. The parental satisfaction measure is based on the percentage of parents, in a random, statewide, representative sample of parents who give the school their oldest child attends an A+ rating.

A composite score for the state is calculated based on these two measures. Each charter school and school district may increase its base level funding by the percentage represented by the composite score. The total program cost is estimated to be \$6.8 million in 1998–1999 and is included in the basic support program.

XVIII. FUNDING FOR NON-TRADITIONAL PUBLIC SCHOOLS

Charter Schools

Arizona's charter school program began in 1995–1996. Charter schools can be sponsored by three different entities: (1) the State Board of Education, (2) the State Board for Charter Schools, and (3) a school district governing board. There are currently a total of 129 charters with over 299 sites in 1998–1999. Student enrollment in charter schools for 1998–1999 exceeds 27,000 students.

Charter schools receive state funding for maintenance and operations under the same basic formula as traditional public schools, and most qualify for the small school district weight because the chartering entity is treated like a school district for the purpose of determining weights for the funding formula. Charter schools receive funding for transportation and capital in a lump sum of “additional assistance” and are not required to spend this assistance on transportation or capital. The capital component of additional assistance for charter schools is greater than the capital components (soft capital and capital outlay revenue limit) provided through the foundation program for school districts because charter schools are not eligible for capital funding under the “Students FIRST” program.

Charter schools sponsored by the two state boards do not have access to local property tax revenue. As a result, these schools receive the full formula amount generated by the foundation program in the form of state assistance because they do not receive a contribution from local or county property taxes. In addition, these charter schools do not have access to tax-supported bonds or overrides. All charter schools are allowed to receive gifts and donations to supplement state funding. State funding for all charter schools in 1998–1999 is estimated to be approximately \$160 million (included in the total basic support program).

Open Enrollment

Beginning in 1995–1996, the state mandated open enrollment for all schools. Under the open enrollment provision, school districts and charter schools are required to adopt open enrollment policies and, subject to available capacity, accept pupils who are residents of the state without charging tuition. Students enrolling under this provision are counted as part of the attending district's student count for purposes of state funding.

XIX. STATE AID FOR PRIVATE K-12 SCHOOLS

The state does not provide direct state aid to private K-12 schools. The state allows up to a \$500 tax credit for donations to school tuition organizations, provided that the taxpayer does not designate the donation for the direct benefit of any dependent. The school tuition organizations must provide educational scholarships or tuition grants to at least two private schools (which may include religious schools). (See section XX below for litigation regarding this credit.) The first tax credits will be taken for 1998, so the cost to the state is not yet known.

XX. RECENT/PENDING LITIGATION

In 1994, the state's school finance system was found to be unconstitutional by the Arizona Supreme Court (*Roosevelt Elementary School District No. 66 v. Bishop*, 877 P.2d 806 (Ariz. 1994)), appeal after remand *sub nom.*, *Hull v. Albrecht*, 950 P.2d 1141 (Ariz. 1997), appeal after remand *sub nom.*, *Hull v. Albrecht*, 960 P.2d 634 (Ariz. 1998)).

The case focused on school capital finance, and the system was found to be unconstitutional because of the inequities created by the heavy reliance on local property wealth to provide funding to meet the capital needs of school districts. After three attempts to pass legislation to satisfy the Court (in 1996, 1997, and April 1998), the "Students FIRST" school capital finance system was enacted, and deemed constitutional by the Arizona Supreme Court, in July 1998.

In 1997, the legislature enacted a tuition tax credit for private schools. This law was challenged by petition to the Arizona Supreme Court. The Court found the tax credit to be constitutional in January 1999 (*Kotterman v. Killian*, 972 P.2d. 606 (Ariz. 1999)). The plaintiffs have appealed the case to the U.S. Supreme Court (petition for cert. filed (U.S. April 27, 1999) (No. 98-1718)).

XXI. SPECIAL TOPICS

None.