

Current Year Funding Concerns

Payment System Concerns

The Arizona Department of Education (ADE) is scheduled to transition over to AZEDs and, while internally staff may be confident the transition will be flawless, there is growing concern by school business officials that the transition to AZEDs and implementing current year funding could exponentially increase the possibilities of implementation errors.

Cash, Tax Rate & Budget Capacity Concerns

In addition to the concerns mentioned above, paired with the unpredictability of current year funding, a district that over estimates its enrollment may over extend itself in terms of expenditures (such as overstaffing); a district that under estimates its enrollment may experience crowded classrooms and shortage of teachers and classroom effectiveness.

Districts consistently strive to ensure the information used by the County Board of Supervisors to generate tax rates for school districts accurately reflects each of their individual school district needs. For example, in order to generate sufficient cash for Maintenance and Operation (M&O) and Capital overrides, school business officials must have accurate average daily membership (ADM) information.

The use of prior year ADM allowed for this to be calculated as accurately as possible with the understanding some fluctuation in ADM may occur. However, current year funding will create unpredictability in ADM resulting in cash deficits or significant positive cash balances. In either case, the tax rates may fluctuate drastically from one year to the next.

With significant changes to each district's percentage of total state weighted student count, will School Finance have any issues in calculating and appropriating payments? What number should districts use to determine how much they should pay out since they won't know until after the statewide recall in June/July/August of the next fiscal year what the final numbers are?

- Implications for districts and charters that use CSF or IIF in base salaries
- Could result in over-expenditure in the two funding sources

Another area of concern should be school districts that take a more conservative approach could not only become cash deficient but may result in a lower budget capacity. In summary, current year funding causes uncertainty in cash, tax rates and will create budget capacity constraints for Arizona school districts.

As a reminder, the State's general fund (GF) supports Arizona Charter Schools' base support level (BSL) and charter additional assistances (CAA) fully. Arizona charter schools are not funded by local property taxes and, therefore, do not encounter the same challenges or unpredictability as Arizona school districts.

Declining District Concerns

Current year funding creates financial hardship for Arizona school districts with declining enrollment at a higher rate when compared to school districts that remains flat (in their enrollment) or experience student growth. Arizona school districts with declining enrollment lose more funding at a higher rate because they have already educated in the prior year (when converting to current year funding). Districts will lose funding that is equal to two years' worth of student decline while their needs for teachers will only decrease marginally. Districts that don't already have triggers for budget declines in their contracts to sever teacher employment prior to the end of the annual contract will likely add this in.

Effective teachers and leaders are currently in high demand, yet Arizona (and around the country) has experienced an anemic education workforce. Staffing models are essential to effective planning and responsible budgeting; and predictability and sustainability of resources are vital. Hiring quality staff earlier rather than later is critical to the success of students.

Current Year Funding Concerns

Please consider the following scenario:

Little Johnny is in second grade right now and we are getting paid for his first grade year. He will be in third grade next year and we will get paid for his third grade year. When do we get paid for Little Johnny attending second grade? The answer is **never**.

A LOST YEAR OF FUNDING					
	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018
JOHNNY ATTENDS	KINDERGARTEN	1st GRADE	2nd GRADE	3rd GRADE	4th GRADE
FUNDING for JOHNNY		KINDERGARTEN	1st GRADE	3rd GRADE	4th GRADE

It is important that stakeholders understand Little Johnny was not fully funded for one year-every district will provide a year's worth of education at no cost to the State and ultimately resulting in less cash and less budget capacity. The financial loss could be alleviated by moving kindergarten to current year and phase it through the subsequent years (grade levels).

Senate Bill (SB) 1002 authorizes a special election on May 17, 2015 to submit to a vote of the people, certain constitutional amendments to provide for education finance. As a result of the May 17, 2015 election, this extends the (final) budget revision to June 30, 2015 (instead of the previous deadline of May 15) with a five day deadline to submit the proposed budget for the subsequent year based on estimated count. Declining Districts will not generate an increase in funding (from the inflation lawsuit settlement) resulting in low staff morale because their compensation did not increase as originally thought. For these declining districts, what should be a win for the state will unfortunately be lost because these districts will likely be unable to provide much needed compensation increases.

4% Carry Forward Concerns and Flexibility

In order to protect the solvency of Arizona school districts, policymakers should eliminate the financial constraint on the M&O carry forward cap. We believe this would look favorable to rating agencies and perhaps provide a positive outlook on Arizona school districts should current year funding be required in fiscal year 2017. Maintaining or increasing bond ratings from rating agencies is a positive for the state as a whole.

Allow school districts flexibility in moving their Revenue Control Limit and/or District Additional Assurances between M&O and Unrestricted Capital after May 15, 2015. Would legislative relief be an option?

Rollover Concerns

Finally, in concert with the intentions to eliminate some of the differences between our two public school systems, consideration should be given to no longer rolling over school district payments into future fiscal years if we move to current year funding. This would alleviate some of the cash flow concerns mentioned previously and provide more stability in setting tax rates.

Summary

Due to the complexities that will be encountered with the transition to AZEDs, current year funding, tax rate, cash flow and budget unpredictability, we believe the implementation of current year funding should be suspended until reasonable solutions can be identified. We realize district operations will have to change if moved to current year funding however, we must be prudent in the manner in which we implement legislative changes so it can mitigate financial hardship to school districts. During a time with a teacher and leader shortage in the state, this does not add any appeal to educators making Arizona their home. This state has amazing things to offer its students and potential educators, so it must be our goal to ensure that those positive things aren't lost in a sea of legislative changes with unintended consequences.