

AN INTRODUCTION TO ARIZONA'S SCHOOL FINANCE SYSTEM

May 2025

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Background

Quality K-12 education is consistently ranked as one of the top priorities of Arizona voters.¹ However, understanding the distribution of dollars from funding source to classroom is challenging since there are several factors impacting this process. In fiscal year 2025, \$15,106 in state, local, and federal funding sources were allocated for each student in Arizona.² In 2025, 47.3% of the state's budget is directed to the Arizona Department of Education (ADE) to fund K-12 education.³ Many state agencies and advocacy groups provide annual reports on various aspects of education funding. This report aims to provide an overview of the numerous and complex funding sources that contribute to Arizona's K-12 public education system.

K-12 Expenditures Over Time

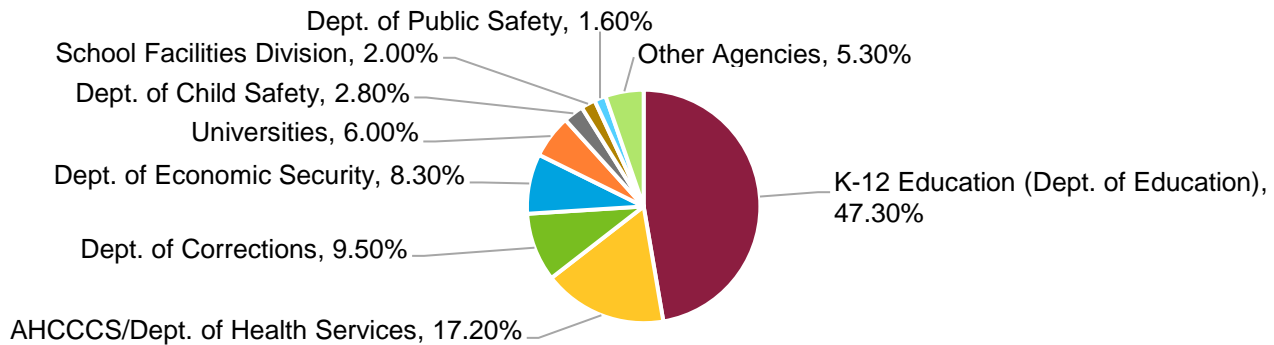
Both Table 1 and Figure 1 show statewide appropriations for fiscal year 2025 (FY25).⁴ Table 2 shows the same expenditures from 2015-2025, including the percentage change for each department.⁵ A majority of the General Fund appropriations are consistently earmarked for K-12 education. While the amount of dollars spent from the General Fund on the 10 largest department budgets has increased over time, the proportion of general funds allocated to each department has decreased, except for the ADE and the Department of Economic Security/Department of Child Safety (DES/DCS). For example, the FY15 budget for ADE was 41% of the share of the General Funds available. In FY25, ADE's budget represented 7% of the General Fund. Conversely, the Arizona Department of Corrections (ADC) went from an 11% allocation from the General Fund in FY15 to 9% in FY25.⁶

Table 1. FY25 Statewide Budget Appropriations (Dollar Amount)

Budget Unit	FY25 Appropriation (in millions)
K-12 Education (Department of Education)	\$7,676.70
Arizona Health Care Cost Containment System/Department of Health Services (AHCCCS)	\$2,792.20
Department of Corrections (DOC)	\$1,537.40
Department of Economic Security (DES)	\$1,344.50
Universities	\$970.00
Department of Child Safety (DCS)	\$458.10
School Facilities Division	\$320.90
Department of Public Safety (DPS)	\$264.50
Other Agencies	\$859.20
Total	\$16,233.50

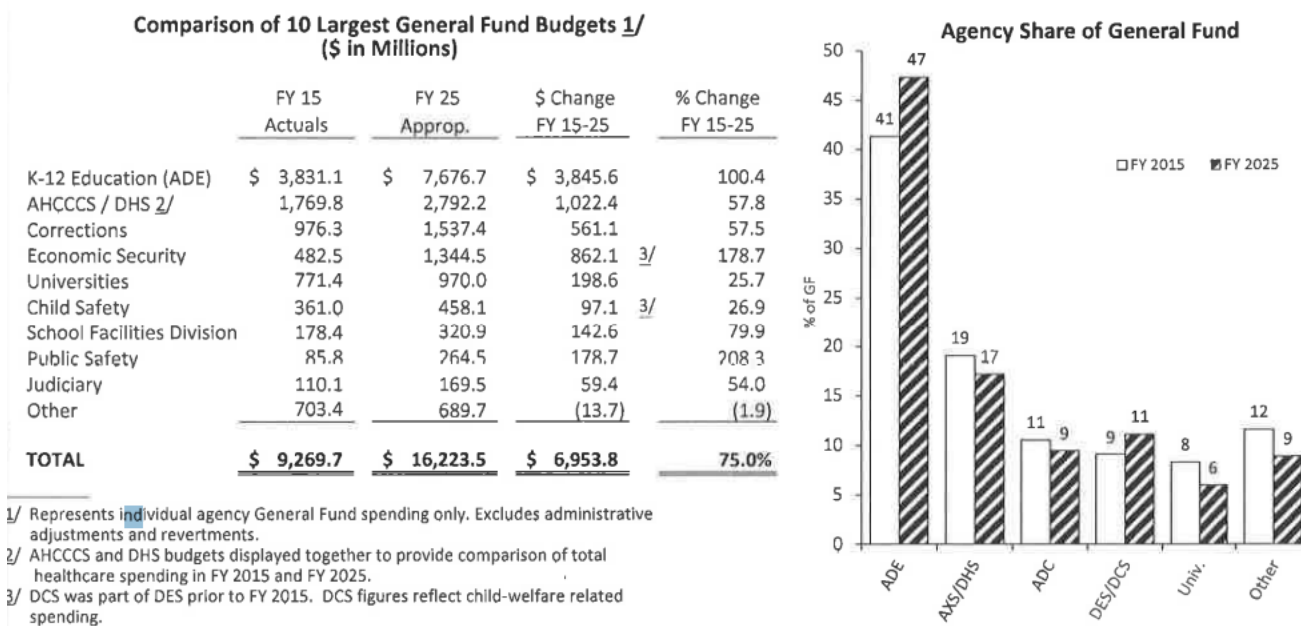
Source: "FY 2025 Appropriations Report," Arizona Joint Legislative Budget Committee, August 2024,
<https://www.azilbc.gov/25ar/fy2025approprpt.pdf>.

Figure 1. FY25 Statewide Budget Appropriations (Percentage Breakdown)



Source: "FY 2025 Appropriations Report," Arizona Joint Legislative Budget Committee, August 2024, <https://www.azilbc.gov/25ar/fy2025approprpt.pdf>.

Figure 2. Change in General Fund Spending from FY2015-FY2025



Source: "FY 2025 Appropriations Report," Arizona Joint Legislative Budget Committee, August 2024, <https://www.azilbc.gov/25ar/fy2025approprpt.pdf>.

Funding Formula

Each school district has an annual spending entitlement, known as the Equalization Base. The Equalization Base is an amount per pupil, regardless of where the student lives in the state. The Equalization Base is the total of the Base Support Level (BSL), the Transportation Support Level (TSL), and District Additional Assistance (DAA).

EQUALIZATION BASE = BASE SUPPORT LEVEL + TRANSPORTATION SUPPORT LEVEL + DISTRICT ADDITIONAL ASSISTANCE

Base Support Level

The Base Support Level (BSL) is the product of the weighted student count multiplied by the base level amount multiplied by the Teacher Experience Index (TEI).

**BASE SUPPORT LEVEL (BSL) = WEIGHTED STUDENT COUNT (COST TO EDUCATE EACH SCHOOL DISTRICT'S UNIQUE STUDENTS) X
BASE LEVEL AMOUNT (MINIMUM PER-STUDENT ALLOCATION) X TEACHER EXPERIENCE INDEX (ADDED ALLOCATION TO DISTRICTS
WHERE TOTAL YEARS OF TEACHER EXPERIENCE EXCEEDS THE STATE AVERAGE)**

Weighted student count. The weighted student count attempts to quantify how much it costs to educate every student based on their unique circumstances. A district's student count is multiplied by coefficients that signify various circumstances. For example, weight is added for students in small and rural districts, students in special education programs, and students classified as English Language Learners.⁷

Base Level Amount. The Base Level Amount is a per-student dollar amount decided by the Legislature each year, typically adjusted for inflation. In FY25, the Base Level Amount is \$5,013 per student.⁸

Charter Schools. In 1994, the Arizona legislature created charter schools with a simpler funding formula than district schools – something that mostly holds true today. Charter schools receive the same base support level as district schools, including the weighted coefficients for special education, English language learners, and small schools.⁹

Transportation Support Level

School districts receive a dollar amount based on their daily miles driven per student, adjusted for inflation. They also have the option to assess an additional property tax levy to generate money for transportation costs beyond what the state provides. Charter schools do not receive funding that must be allocated specifically for transportation; however, transportation at Charter schools can be paid for using Charter Additional Assistance (CAA) monies as described below.¹⁰

District Additional Assistance

District Additional Assistance (DAA) can cover necessary expenses like textbooks and computers, and it can also be used for Maintenance and Operations (M and O) or capital expenses such as land or building improvements (i.e., central air).¹¹ The student count of a school district is multiplied by an amount set in statute each year. Smaller school districts and grades 9-12 receive a heavier weight. DAA was cut during the recession but was slowly restored back to the amount the formula dictates in 2022. In 2025, the Legislature appropriated a one-time DAA supplement of \$89 million.¹²

In addition to the Base Support Level, charter schools receive Charter Additional Assistance (CAA). Charter Schools can use CAA funds flexibly with allowable expenditures ranging from operations and maintenance to transportation, facility construction, and teacher salaries.¹³ CAA funding comes entirely from the state's General Fund. In fiscal year 2024, charter schools received about \$2,000 per student in the form of CAA from the formula.¹⁴ In 2025, the Legislature appropriated a one-time payment of \$29 million for a CAA supplement.

Additional Sources of Revenue

Additional funding opportunities are available based on the district's location and population—i.e., extra state funding for small school districts, and revenue that can be generated through voter-approved property tax levies—bonds and overrides, extra transportation funding, and desegregation funding.

By the time a student walks into an Arizona classroom on their first day of school, many sources of funding have been compiled by the School Business Official. In addition to the Equalization Base, here's a brief list of other potential funding sources.

Federal Funding

IMPACT AID helps to offset the funding loss when a school district's boundaries include federal land that is not taxable. See **Impact Aid** below.

INDIVIDUALS WITH DISABILITIES EDUCATION ACT (IDEA): Federal funding through the Individuals with Disabilities Act provides formula funding for special education students through age 21. In 2024, Arizona received about \$194 million in IDEA funding.¹⁵ Federal law also dictates much of the accessibility and reporting requirements for students with disabilities.

TITLE I: Provides financial assistance to school districts and charter schools with high percentages of children from low-income families. The distribution formula is based on census poverty estimates and the cost of education in each state.

OFFICE OF INDIAN EDUCATION: The Office of Indian Education (OIE) is housed within the Arizona Department of Education and manages state and federal programs that serve Native American students. OIE is a liaison between tribal education departments and ADE. It also provides support to urban school districts serving high numbers of Native American students.

E-RATE: Also known as the Schools and Libraries Program. This program provides discounts of up to 90% to help eligible schools and libraries get affordable phone and internet access.

ENGLISH LANGUAGE ACQUISITION: A formula based on the number of immigrant and English Language Learner (ELL) students in each state to help implement programs and improve the education of ELL students. In 2025, Arizona schools received a total of \$12.7 million for English Language Acquisition Programs.¹⁶

Local Funding

Bonds and Overrides: Approved locally by voters to generate extra revenue for district schools beyond what the state provides. Charter schools are not able to levy bonds or overrides. See **Bonds and Overrides** below.

DESEGREGATION FUNDING: The federal Office of Civil Rights (OCR) oversees any claims of discrimination within public schools. If a school district is found to have civil rights violations, they must budget for the cost associated with the requirements that OCR prescribes for how to rectify the violation. In 1983, a state law was enacted that allowed school districts, under court order, to levy an additional property tax, without voter approval, to remediate any discrimination. Districts can continue to budget and levy for desegregation funding after a court order is lifted or the OCR agreement expires. Eighteen (18) school districts in Arizona levy for desegregation funding.¹⁷

SMALL SCHOOL ADJUSTMENT: Small school districts and small isolated school districts receive an additional weight in funding allocation. If districts have 125 or fewer students in K-8 or 100 or fewer students in grades 9-12, they are eligible to budget for a small school's adjustment. The adjustment is paid by local taxpayers through a primary property tax.¹⁸

TRANSPORTATION REVENUE CONTROL LIMIT: A voluntary program that allows districts to assess an additional property tax levy to generate extra revenue for transportation costs beyond what the state formula provides.¹⁹

Bonds and Overrides

There are two ways for district schools to generate extra revenue beyond what the state provides: passing bonds and overrides. The governing board of a school district will discuss and approve a proposal that addresses the financial needs of their schools and draft an argument for the election pamphlet for voters. A majority of voters in the district must approve the proposal, and school districts cannot use any public funds to campaign and influence the outcome of the election. Generally, groups of parents and other interested parties will form independent committees to raise support for a proposal.

BONDS: Districts are allowed to sell bonds to investors. Money earned from this sale is used to buy school sites, construct school buildings, and renovate older facilities. It can also be used to purchase buses and other transportation options.

OVERRIDES: A budget override allows a district to exceed its Revenue Control Limit (RCL), set by state law, by up to 15% of its Maintenance and Operation (M and O) budget. This additional funding is generated through increased local property taxes if the override is approved by a majority of district voters. Most commonly, override dollars are used to pay the salaries and benefits of teachers.²⁰ They can be approved for a maximum term of seven years, but most districts ask for approval for 4-5 years at a time to receive continual funding. This is because the district receives the full amount for the first five years, but by the 6th year the funding is reduced by one-third and in the 7th, it's reduced by two-thirds.²¹ Many districts have continuously approved overrides since the 1990s.

Property Taxes

The Arizona Constitution caps primary property tax rates at no more than 1% of a home's Limited Property Value (LPV) for an owner-occupied residence.²² LPV is determined by a formula to prevent a large increase in tax liability when the real estate market fluctuates. The current year LPV is 5% higher than the prior year's LPV, never to exceed the Full Cash Value of the home, which is synonymous with market value.²³

Primary property taxes are used to pay basic maintenance and operation costs for a city, town, county, or school district (secondary property taxes can be levied to pay for bonds or taxes levied by special taxation districts). This cap includes all taxing jurisdictions applicable to the home. Primary taxes levied by the city, county, town, and school district must total less than 1% of the home's value.²⁴ While there is no law dictating how to enforce the 1% cap, often if a homeowner's property tax liability exceeds the 1% cap, the state provides "Additional State Aid" to the school district, and the school district lowers the levy on their taxpayers in response.²⁵ However, there is a cap on the amount of additional state aid available, \$1 million per county. If the limit is surpassed, the Property Tax Oversight Commission decides how to redistribute the excess amounts among taxing jurisdictions.²⁶

Impact Aid

When a school district's boundaries include large allocations of land that are not taxable, Impact Aid helps augment their budget. The United States Congress has been providing Impact Aid since 1950 but made it official via Title VII of the Elementary and Secondary Education Act of 1965.²⁷ The program replaces revenue lost because of nontaxable federal property—like military bases, Native American reservations, federal low-income housing, and national parks or forests. It also helps support the cost of educating "federally connected children"—that is, children of members of the military, those who live on Native American reservations, on federal property, or in federally subsidized housing. There are four types of Impact Aid payments:

- I. **Payments for Federal Property** help local school districts who have lost a portion of their local tax base because of federal property listed above. To be eligible, the federal government must own real property worth at least 10% of all the property in the school district.

- II. **Basic Support Payments** help school districts and charter schools to educate federally connected children. To be eligible, the district or charter has to have at least 400 federally connected children enrolled or federally connected children must comprise at least 3% of their total average daily attendance.
- III. **Payments for Children with Disabilities** provide additional support to school districts and charter schools that educate federally connected children who are eligible for special education services. A district or charter that receives these funds must use them for the increased cost of educating federally connected children with disabilities.
- IV. **Construction Grants** help pay for construction and repair of school buildings that serve children living on Native American reservations and children of members of the military.

It is important to keep in mind that Impact Aid is not “extra” funding. It is necessary funding that helps certain school districts receive the same amount of capital as those with access to local property taxes. In 2024, \$1.625 billion was appropriated nationwide as part of the Impact Aid program.²⁸ Arizona public schools receive the second-largest amount of Impact Aid in the country after Alaska. Seventy-six (76) of Arizona’s school districts and charter schools (~34%) receive Impact Aid. In 2024, Arizona received \$215.3 million for the students that qualified.²⁹

Congress has not fully funded the program since 1969, and as a result, awards are based on a Learning Opportunity Threshold. This threshold denotes that of all the districts with federally connected students, districts with a higher percentage compared to their total student population receive a larger amount of the total funds appropriated. In fiscal year 2024, there was an \$867 million shortfall in payments.³⁰

Aggregate Expenditure Limit

In 1980, Arizona voters approved ten amendments to the Arizona Constitution. Inspired by a similar change approved in California the year before, one of the amendments created expenditure limitations for community colleges and school districts.³¹ Under the Aggregate Expenditure Limit (AEL), the total spending by all school districts in Arizona cannot exceed a certain amount each year. That amount is based on the adopted budgets from the 1979-80 school year and are adjusted each year based on inflation and changes in student enrollment. Charter schools are not subject to the AEL.³²

The AEL was exceeded by roughly \$14 million in the 1986-87 school year.³³ In response, Arizona voters approved a 10% increase to the limit. Then in 2000, voters approved Proposition 301 which created an additional sales tax and state trust revenues to help fund public schools. This increased revenue resulted in the state exceeding the AEL limit again in the 2001-02 school year. In response, the legislature voted to allow the overage for one year. In 2002, voters approved Proposition 104, which exempted any revenue from Proposition 301 from being considered as part of the AEL in the future.

The Constitution does not specify what happens if the AEL is exceeded. However, a two-thirds vote of both the House and Senate can allow an overage every year, making enforcement of the AEL a policy decision made by the legislature. If the legislature doesn’t approve an overage, school districts must reduce their budgets accordingly. For example, if the AEL is exceeded by 10%, every district would be required to reduce its budget by 10% in response.³⁴

Proposition 301 was set to expire in 2020, but in 2018, the legislature and Governor Ducey voted to continue the tax. As part of that legislation, the provision to exempt 301 revenues from the AEL was dropped, meaning that any sales tax revenue brought in by Proposition 301 (which totals over \$600M annually) would now count towards the AEL for the first time. Between this change and the decline in student enrollment during the COVID-19 pandemic,

school districts were set to exceed the AEL by nearly \$1.4 billion in 2023.³⁵ However, the legislature voted to waive the limit in time to prevent budget cuts for school districts.

The legislature has voted to allow spending above the AEL several times in the past, always as a pro-forma financial bill that does not garner public attention. However, ongoing political dynamics since 2022 have made it difficult to achieve the two-third vote necessary to allow funding above the AEL limit. Each year since, the legislature has waived the expenditure limit as a way of addressing the issue, indicating that without a more permanent solution, this challenge will persist. During the 2025 legislative session, House Concurrent Resolution (HCR) 2003 was submitted, allowing schools to exceed the AEL for another year.³⁶

Capital Funding Litigation

According to the Arizona Constitution, the legislature is required to enact laws that “provide for the establishment and maintenance of a general and uniform public school system.”³⁷ In lay terms, a student attending school in Douglas is required to have the same resources and support as a student in North Scottsdale. To that end, state statute also requires that the School Facilities Oversight Board establish minimum school facility adequacy guidelines.³⁸

The school finance formula in Arizona is meant to cover Maintenance and Operation (M and O) expenses like salaries, benefits, and utilities. Districts are allowed to use M and O money to cover costs to maintain and build facilities, but most do not have funds left over after covering basic M and O expenses like salaries, benefits, and supplies. School districts are allowed to seek voter approval to levy a bond for specific capital projects, subject to certain limitations. Traditionally, districts would seek bonds to pay for “extra” facilities like an upgraded performing arts center but not regular construction or maintenance.

In 1994, the Arizona Supreme Court declared our school finance system unconstitutional.³⁹ It relied too heavily on local property tax revenue, so that school districts in wealthier areas had more resources and violated the “general and uniform” clause. After a few attempts, the legislature passed what is known as the Students FIRST (Fair and Immediate Resources for Students Today) program. Students FIRST is funded by revenue from Proposition 301 sales tax, state land trust revenue, and legislative appropriations made to the School Facilities Board (SFB).⁴⁰ This system worked well when the economy was strong, but when general fund revenues were down, support for school facilities was cut as well.⁴¹ In response, the SFB switched from a guaranteed formula funding model to a competitive grant process. Some districts alleged that the process took too long and that the funds were limited, so they turned to passing bonds to pay for basic facility maintenance.⁴²

In 2017, a group of plaintiffs including several school districts and education advocacy groups sued the State of Arizona for failing to fund school districts in a general and uniform manner, as well as failing to provide a minimum adequate facility standard in many districts.⁴³ In 2022, the state wanted to dismiss the lawsuit after changes to how facilities are funded, including several large one-time appropriations to the Building Renewal Grant Fund. Attorneys for the state argued that “The legislature is not required to fund all the capital facilities each district chooses to acquire, nor is it required to ensure that every district has exactly the same facilities and capital resources.”⁴⁴ Governor Katie Hobbs, who took office in 2023, issued executive orders mandating inspections of all public school buildings every five years and the modernization of the Minimum Adequacy Guidelines by establishing a stakeholder council to update the guidelines for school facilities.⁴⁵ In 2024, the trial over Arizona’s school funding resumed. A ruling in the case was anticipated by early 2025; however, at the time of this report, no ruling had been made.⁴⁶

Empowerment Scholarship Accounts

In 2011, Arizona began the Empowerment Scholarship Account (ESA) program.⁴⁷ The ESA program was created for students with disabilities that were not well served within the traditional public school system. Parents of those students could apply for an ESA and be awarded 90% of what the state would have spent educating that child if the child was attending a charter school. These funds are loaded onto a debit card and can be spent on private school tuition, homeschooling curriculum, educational services, and other educational expenses.⁴⁸ State statute requires the Department of Education to conduct random audits of ESA account holders. In fiscal year 2024, 376,629 expenses were audited and 9,977 of those were rejected.⁴⁹

Over time, the legislature expanded the types of students eligible for ESAs to include “students in foster care, living on Indian Reservations, attending underperforming public schools, students of a parent who is on active-duty military or was killed in the line of duty, and students of a parent who is legally deaf, blind, or hard of hearing.”⁵⁰ Then, in 2022, the program was expanded again to allow universal eligibility, meaning that every K-12 student in Arizona is eligible for an ESA. Additional positions and funds for administering the program have been added over time, as well as money for both the State Treasurer and the Ombudsman’s Office to assist with administrative needs. From fiscal year 2022 to fiscal year 2023, the cost of the ESA program rose from \$189 to \$587 million.⁵¹ According to ADE, as of September 2024, 78,615 students are enrolled in the ESA program.⁵² In fiscal year 2025, the state has budgeted \$824.5 million for ESA awards,⁵³ and in fiscal year 2024, \$625 million was budgeted.⁵⁴

Proposition 123

In May 2016, voters approved a referendum called Proposition 123, which was part of a settlement in a K-12 funding lawsuit. As part of Proposition 301, which was approved in 2000, the legislature is required to increase the base level amount annually to adjust for inflation. During the 2008 recession, this did not happen. In 2010, a lawsuit was filed because the act of not increasing funding to account for inflation violated the Voter Protection Act, and the language and intent of Proposition 301 approved by voters in 2000. After many years of litigation, Proposition 123 was crafted and sent to voters for approval. Some of the money appropriated to schools by Proposition 123 came from the state’s general fund, but the majority came from a higher payout from the State Land Trust.^{55**}

Prior to Proposition 123’s passage, 2.5% of the trust fund was given to K-12 education each year. Proposition 123 increased that to 6.9% for 10 years to help pay back inflation adjustments to schools.⁵⁶ Per the original Proposition, this increased payout is set to expire in July of 2025. During the 2024 legislative session, two different proposals were introduced to extend Proposition 123 with some adjustments. One bill would have kept the 6.9% distribution rate and specified those funds must go solely to teacher pay. The other bill would have increased the distribution rate to 8.9% and specified the funds would go to pay raises for educators and staff, as well as general school funding, school safety, and security capital projects. Neither bill garnered traction, resulting in no changes to Proposition 123 during the 2024 legislative session.⁵⁷ Most recently, in March 2025, Governor Katie Hobbs released an outline of a Prop 123 extension plan that will increase funding to public schools over the next 10 years.⁵⁸

More specifically, Governor Hobbs’ plan will:

- **Enshrine a permanent funding source for teacher pay. The plan secures a permanent 5.5% State Land Trust distribution rate and designates that proceeds from the 3% distribution into the Classroom Site Fund is used to increase teacher pay. The projected increase in FY26 is \$216 million or \$158 per pupil.**
- **Add an additional ten-year distribution rate of 1.4% to increase Base Level funding. This will add approximately \$101 million in school funding in FY26.**

- **Reform Prop 123 to disallow the Legislature to not fund inflationary increases by requiring a 2/3 vote.**

State legislators are currently working during the 2025 legislative session to find consensus on the plan's specifics, such as the distribution rate and timeline for the bill. The resulting bill will then require a majority vote from Arizona voters in the 2026 midterm election as this change would result in an amendment to the State Constitution. Given the urgency of this issue, Governor Hobbs is calling for a special election in November 2025 with the Prop 123 extension plan on the ballot. At the time of this publication, a timeline for Prop 123 was still unclear.

****Note.** Congress granted land to Arizona upon statehood that serves as an endowment and source of revenue for Arizona K-12 public education. Funds from the sale of this land are placed into a trust fund (State Land Trust) and then invested in securities and bonds. Revenue is also generated through leasing the land for activities such as mining or cattle grazing.⁵⁹

Conclusion

Education financing in Arizona is a complex topic that continues to evolve with the changing policy landscape. In the past decade, funding allocations to the Arizona Department of Education (K-12) have increased. To fund public schools, a formula comprising several funding sources and designated allocations is used. Funding from federal and local sources of revenue contributes to public school funding, and in Arizona, charter schools are provided with additional funding to cover a diverse range of expenditures. Additionally, Arizona offers Empowerment Scholarship Accounts for parents to pay for private tuition, home schooling, or other approved expenses when they feel their child is not being well-served in the traditional public-school setting. In sum, the education financing landscape in Arizona is complex and nuanced, and evidenced by the recent Proposition 123 proposal, it will continue to evolve to try and meet the needs of Arizona's education system.

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² "K-12 Funding (M&O, Capital and Other) FY 2016 through FY 2025," Arizona Joint Legislative Budget Committee, September 17, 2024, <https://www.azilbc.gov/units/allfunding.pdf>.

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⁴ Arizona Legislative Budget Committee, *FY 2025 General Fund Appropriations—Where It Goes*, August 2024, Digital graph, FY 2025 Appropriations Report, <https://www.azilbc.gov/25ar/fy2025approprpt.pdf>

⁵ Arizona Legislative Budget Committee, *Then and Now—FY 2015 vs. FY 2025 General Fund Spending*, August 2024, Digital graph, FY 2025 Appropriations Report, <https://www.azilbc.gov/25ar/fy2025approprpt.pdf>.

⁶ Arizona Legislative Budget Committee, *FY 2025 General Fund Appropriations—Where It Goes*, August 2024, Digital graph, FY 2025 Appropriations Report, <https://www.azilbc.gov/25ar/fy2025approprpt.pdf>

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⁸ "FY2025 School Finance Fiscal Operations Updates," Arizona Department of Education, June 18, 2024, <https://www.azed.gov/finance/fy2025-school-finance-fiscal-operations-updates>.

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- ¹⁴ "FY2024 School Finance Fiscal Operations Updates," Arizona Department of Education, June 8, 2023, <https://www.azed.gov/finance/fy2024-school-finance-fiscal-operations-updates>
- ¹⁵ "Allowable Costs Under the IDEA," Arizona Department of Education, January 9, 2024, <https://www.azed.gov/sites/default/files/2024/01/AllowableCostsJanuary2024.pdf>.
- ¹⁶ "FY 2025 Title III Preliminary Allocations List - For OELAS Reporting Purposes – Redacted," Arizona Department of Education, Accessed October 10, 2024, <https://www.azed.gov/sites/default/files/2024/03/FY%202025%20Title%20III%20Preliminary%20Allocations%20List%20-%20For%20OELAS%20Reporting%20Purposes%20-%20Redacted.pdf>.
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