

REPORT HIGHLIGHTS SPECIAL STUDY

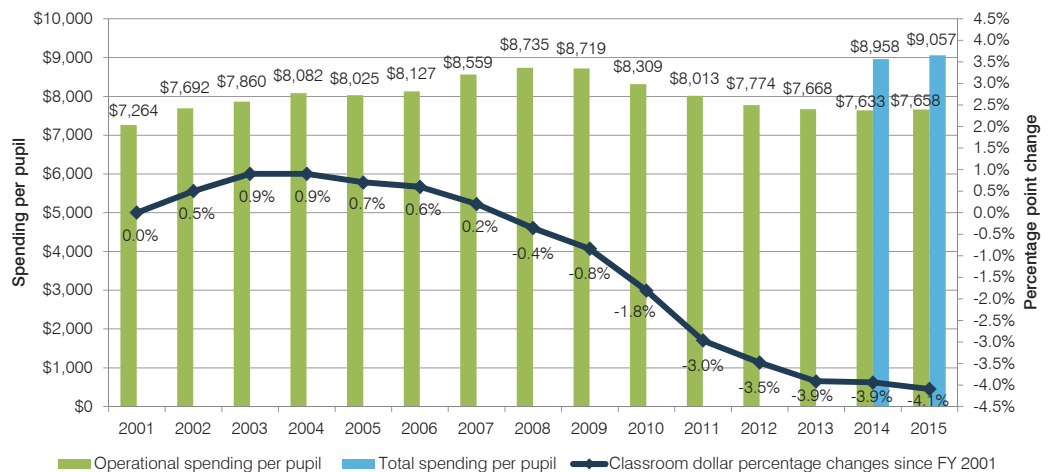
Continuing its long decline, classroom spending dropped to 53.6 percent, its lowest point since monitoring began in 2001

Our Conclusion

In fiscal year 2015, Arizona districts spent 53.6 percent of available operating dollars on instruction—the lowest percentage since we began monitoring this in fiscal year 2001. This percentage has declined both during years of increased and decreased overall spending. Since its peak in fiscal year 2004, the State’s classroom dollar percentage has declined 5 percentage points, while the percentages spent on all other operational areas has increased. Although the impact of a declining classroom dollar percentage varies by district, it can be seen state-wide in lower teacher pay and larger class sizes. Although factors outside a district’s control—such as district size, type, and location—can affect its efficiency, some districts operate efficiently and have lower costs despite these factors, while others do not. Finally, Arizona school districts spent about \$3,100 less per pupil than the national average and allocated their resources differently, spending a lower percentage of resources on instruction and administration and a greater percentage on all other operational areas.

In fiscal year 2015, Arizona school districts spent 53.6 percent of their available operating dollars on instruction—In fiscal year 2015, Arizona school districts spent 53.6 percent of their available operating dollars on instruction—the lowest percentage in the 15 years we have been monitoring district spending. In fiscal year 2001, Arizona districts spent 57.7 percent of available operating dollars on instruction. Then, in fiscal year 2002, districts began receiving Classroom Site Fund (CSF) monies intended to increase classroom spending. Soon after, in fiscal years 2003 and 2004, the State’s classroom dollar percentage increased to 58.6 percent. However, between fiscal years 2004 and 2015, the percentage of resources spent on instruction declined, both during times when total operational spending decreased as well as times when it increased. At the same time, the percentages spent on administration, plant operations, food service, transportation, student support, and instruction support have all increased. Had districts continued directing resources into the classroom at the same rate they did in fiscal year 2001, they would have spent an additional \$402 million in the classroom in fiscal year 2015.

**Arizona’s operational and total spending per pupil and change in classroom dollar percentage since fiscal year 2001 (inflation adjusted to fiscal year 2015 dollars)
Fiscal years 2001 through 2015**



Impact of declining classroom dollar percentage varies by district but can be seen state-wide in lower teacher pay and larger class sizes—Although the impact of a declining classroom dollar percentage varies by district depending on the cause of the decline, it is reflected state-wide in lower teacher pay and larger class sizes. Between fiscal years 2004 and 2015, the average teacher salary (adjusted for inflation) decreased 8 percent despite the teachers’ average years of experience staying about the same. More recently, between fiscal years 2010 and 2015, the state-wide average teacher salary decreased from \$47,077 to \$46,008 despite a 4 percent increase in the average years of teacher experience. During this same 5-year period, the state-wide average students per teacher increased from 17.9 to 18.6.



2016

Districts spend at very different levels and operate at very different degrees of efficiency

Districts spent at very different levels—In fiscal year 2015, as in prior years, there was a wide range in total per pupil operational spending among Arizona districts. Even when excluding Arizona’s very small districts, which have highly variable spending patterns, fiscal year 2015 spending by district ranged from \$5,911 per pupil to \$18,853 per pupil. Districts also varied greatly in their nonoperational spending, which includes costs incurred for capital outlay, interest, and programs such as adult education and community service that are outside the scope of preschool through grade 12 education. In fiscal year 2015, after excluding Arizona’s very small districts, nonoperational spending by district ranged from \$28 per pupil to \$8,185 per pupil.

Arizona’s school-district-funding formula provides similar districts with a similar amount of basic funding. However, after basic funding, districts may receive additional revenues through various funding formulas that are designed to offset expected higher costs. For example, districts receive additional monies for special needs students, and if they are located in isolated areas or have more experienced teachers. Districts may also qualify for federal impact aid or state or federal grants, and some districts may also receive monies as a result of a desegregation agreement, a small school adjustment, or a voter-approved budget override.

Wide range of costs among similar districts indicates potential for improved efficiency at many districts—

Although a district’s efficiency can be affected by its size, type, and location, wide ranges of costs among districts grouped by these factors indicate that some districts have achieved lower costs than other districts of similar size, type, and location. Our performance audits have identified a variety of efficient and inefficient district practices. For example, more efficient districts monitored performance measures, used staffing formulas, had energy conservation plans, maximized the use of free federal food commodities, limited waste by closely monitoring meal production, and adjusted bus routes to ensure that buses were filled to at least 75 percent of capacity. In contrast, less efficient districts had costly benefit packages and higher staffing levels, operated schools far below designed capacity, did not monitor energy consumption, had poorly written vendor contracts, and paid drivers for time not spent working.

Districts that operate efficiently allocate more of their resources to instruction—

Districts that operate efficiently have more dollars available to spend in the classroom. Our performance audits of individual districts have found that efficient districts—those that perform better than their peers on performance measures of operational efficiency—are able to allocate more of their resources to instruction. The broader analysis conducted across all districts for this report showed a similar result. When performance measures were compared across all districts in each efficiency peer group, districts that outperformed their peers tended, on average, to spend higher percentages of available operating dollars on instruction.

Operational efficiency can impact districts’ financial stress levels—

This report assesses six district-level measures that provide information on district finances, identify potential problems, and suggest the need for possible corrective action. In fiscal year 2015, 7 districts were found to have a high financial stress level, 53 a moderate level, and 147 a low level. Having a high financial stress level can be a sign that a district has inefficient operations. However, there are many districts with low or moderate financial stress levels that also operated inefficiently compared to their peers. These districts often had access to additional resources not typically available to most districts, such as desegregation monies or federal impact aid monies that allowed them to operate inefficiently and contributed to their lower financial stress levels. Therefore, even

Cost variance examples

- A very large, urban, unified district spent \$475 per pupil for administration; another spent \$897 per pupil.
- A medium-sized, rural, unified district spent \$3.17 per square foot for plant operations; another spent \$9.20 per square foot.
- A medium-sized, rural, unified district spent \$2.49 per meal; another spent \$4.65 per meal.
- Two medium-large-sized, urban, elementary school districts drove a similar number of miles per rider; one district spent \$3.71 per mile, and the other spent \$8.05 per mile.

Number of districts by overall financial stress level Fiscal year 2015

Stress level	Number of districts
High stress	7
Moderate stress	53
Low stress	147

those districts found to have a moderate or low financial stress level may need to take additional actions to operate efficiently or address other areas of concern.

Arizona school districts spent less overall and spent differently than districts nationally

Arizona school districts spent less than national averages in nearly all operational areas—In fiscal year 2015, Arizona school districts spent approximately \$3,100 less per pupil than the 2013 national average (most recent national data available). This lower spending is seen in the classroom (instruction), as well as every nonclassroom operational area except student support, which was similar to the national average. Arizona districts spent a similar amount in nonoperational areas compared to the national average, spending more per pupil on equipment but less on land and buildings, interest, and other programs, such as adult education and community service that are outside the scope of preschool through grade 12 education.

Compared to national averages, Arizona school districts received a greater percentage of their revenues from federal sources and a smaller percentage from state and local sources. Federal revenues comprised a greater percentage of Arizona school district revenues, in part because Arizona school districts received more federal dollars per pupil than the national average, but primarily because Arizona school districts received fewer revenues per pupil overall.

Comparison of Arizona and U.S. per pupil spending by area

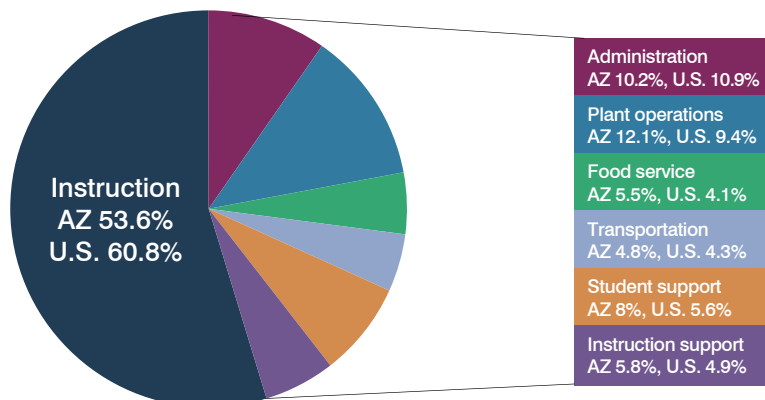
Fiscal years 2015 (Arizona) and 2013 (U.S.)

	Arizona average 2015	National average 2013	Difference
Spending by area			
Instruction	\$4,105	\$ 6,543	(\$ 2,438)
Administration	780	1,173	(393)
Plant operations	930	1,018	(88)
Food service	417	439	(22)
Transportation	371	467	(96)
Student support	613	600	13
Instruction support	442	523	(81)
Total operational	\$7,658	\$10,763	(\$ 3,105)
Nonoperational areas			
Land and buildings	\$ 641	\$ 736	\$ (95)
Equipment	383	178	205
Interest	225	346	(121)
Other	150	163	(13)
Total nonoperational	\$1,399	\$ 1,423	\$ (24)
Total per pupil spending	\$9,057	\$12,186	(\$ 3,129)

Arizona school districts allocated their resources differently than national averages—Compared to national averages, Arizona school districts spent a lower percentage of their available resources on instruction and administration and a greater percentage on all other operational areas. In 2015, Arizona districts spent 53.6 percent of available operating dollars on instruction, 7.2 percentage points below the national average of 60.8 percent. Arizona’s lower instructional spending is reflected in its larger class sizes.

In 2014, Arizona’s class size was 18.6 students per teacher compared to the national average of 16.1 students per teacher. The relatively low classroom dollar percentage was not the result of high administration costs because Arizona districts allocated a smaller percentage of resources for administration than the national average. However, Arizona districts allocated a larger percentage of resources to all the other operational areas, primarily for plant operations and student support services.

Arizona and U.S. spending by operational area Fiscal years 2015 (Arizona) and 2013 (U.S.)



Individual district information

In addition to the state-wide information discussed earlier, this report also contains two-page summaries of each district's performance on various financial and student measures including operational and nonoperational spending, operational efficiency measures compared to peer averages, student test scores, a financial stress assessment, revenues by source, and graphical summaries of each district's operational trends.