



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Special Study

Arizona Public School Districts' Dollars Spent in the Classroom Fiscal Year 2008

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Debra K. Davenport
Auditor General

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Ann Orrico, Manager and Contact Person

Briton Baxter, Team Leader

Jennie Snedecor, Team Leader

Amanda Brehmer

Taide Chavez

Carol Davis

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Christine Medrano

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 26, 2009

Members of the Arizona Legislature

The Honorable Jan Brewer, Governor

I am pleased to present our report, *Arizona Public School Districts' Dollars Spent in the Classroom, Fiscal Year 2008*. We prepared this report in response to the Arizona Revised Statutes §41-1279.03 requirement to determine the percentage of every dollar Arizona school districts spend in the classroom. This report also describes how districts used Classroom Site Fund (CSF) monies resulting from Proposition 301. To provide a quick summary for your convenience, I am also including a copy of the Report Highlights.

In fiscal year 2008, Arizona's state-wide percentage of dollars spent in the classroom was 57.3 percent, which is the lowest it has been in the 8 years my Office has been monitoring classroom dollars and almost 4 percentage points lower than the national average of 61 percent reported by the National Center for Education Statistics. The classroom dollar percentage has declined despite schools' having received about \$300 million a year in CSF monies. These monies are intended to increase classroom spending, primarily by increasing teacher salaries. However, spending patterns indicate that districts are using CSF monies to supplant—or replace, rather than add to—other district monies primarily to pay for increased student and instructional support services costs. If districts had maintained their previous level of classroom spending and added to it the CSF monies, the state-wide classroom dollar percentage would be 2.4 percentage points higher and the average teacher salary in Arizona would be about \$7,500 higher.

A district's size continues to be the primary factor associated with higher classroom spending. Larger districts can spread fixed, noninstructional costs over more students, leaving more dollars to spend in the classroom. However, many smaller districts are still able to spend a higher percentage of their dollars in the classroom than the state average. According to district officials at some of these small-sized districts with high classroom dollar percentages, they were able to lower their noninstructional costs by having employees perform several jobs and hiring part-time staff.

Finally, districts are required to direct 40 percent of their CSF monies to teacher performance pay. State law provides guidance on the types of goals that performance pay plans should include, but allows districts to modify these measures. As a result, districts varied widely in the goals they established for awarding performance pay.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on February 27, 2009.

Sincerely,

Debbie Davenport
Auditor General

Summary

Pursuant to Arizona Revised Statutes (A.R.S.) §41-1279.03, the Office of the Auditor General has conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom. This report presents state-wide trends in classroom and nonclassroom spending, including factors associated with districts that spend a greater percentage of their dollars in the classroom. In addition, this report examines the adequacy of the districts' performance pay plans and summarizes how districts reported using their Classroom Site Fund monies resulting from Proposition 301, the education sales tax approved by voters in 2000.

School district spending shifts away from the classroom (see pages 3 through 9)

In fiscal year 2008, Arizona's state-wide percentage of dollars spent in the classroom was 57.3 percent, the lowest it has been in the 8 years that the Auditor General has been monitoring classroom dollars. Beginning in fiscal year 2002, Proposition 301 provided new monies for Arizona school districts called Classroom Site Fund (CSF) monies, which are largely restricted for classroom purposes, primarily for increasing teacher pay. Despite an average annual increase of about \$300 million of CSF monies, Arizona's classroom dollar percentage is lower than it was prior to receipt of the first CSF monies and continues to lag more than 3 percentage points behind the national average of 61 percent.

In fiscal year 2008, districts spent almost \$421 million in CSF monies, and, as in prior years, districts spent over 90 percent for instructional purposes, such as teacher pay. Almost all of these expenditures, 99.9 percent, appear appropriate and allowable under statute.

With the infusion of these CSF monies largely directed to the classroom, the State's classroom dollar percentage and teachers' salaries could have been higher, but districts appear to be using these monies to supplant—or replace, rather than add to—other monies, a violation of A.R.S. §15-977(A). Many districts are not spending their other monies for instructional activities at the same level of effort they did prior to receiving CSF monies. If districts had continued spending their non-CSF monies

in the classroom at the same rate they did prior to receiving CSF monies, the fiscal year 2008 state-wide classroom dollar percentage would have been 59.7 percent and teacher salaries would have been about \$7,500 higher, on average.

As the percentage of classroom spending from non-CSF monies has declined since 2001, the percentage of noninstructional spending has increased primarily for instructional support services, such as teacher training, and for student support services, such as physical and speech therapies. These increases may be explained, in part, by changes in how districts provide those services and in the number of students served. Districts appear to have switched from in-house employees to contracted positions for instructional and student support services. According to district officials, these contracted specialists are more costly. Further, the percentage of students requiring special education has increased since fiscal year 2001, and these students are more likely to receive student support services such as physical, behavioral, and speech therapy. Auditors also examined whether the increased level of noninstructional spending was explained by disproportionate inflationary pressures, but found that between fiscal years 2001 and 2008, industry wages in noninstructional cost areas rose consistently with inflation. Additionally, during this same time period, increases in revenues per pupil for Arizona's districts outpaced inflation, on average. Regardless of the districts' changing circumstances related to contracting for certain support services and responding to a growing special needs population, using CSF monies to supplant other monies for these purposes is in direct violation of A.R.S. §15-977(A).

Higher classroom dollar percentage associated with— but not dependent upon—larger district size (see pages 11 through 12)

District size continues to be the primary factor associated with higher classroom spending percentages for Arizona school districts. Larger districts are able to achieve economies of scale by spreading noninstructional costs over more students, leaving additional dollars to spend in the classroom. Perhaps related to their large numbers of students, the districts with the highest percentages also provide less building space per student and have higher student-employee ratios. There are two additional factors not related to size that may affect classroom spending. The districts with the lowest classroom dollar percentages have twice as many students living below the poverty level and transport their students almost twice as many miles per rider as the highest percentage districts, on average. These factors may increase the per-pupil student support services and transportation costs, respectively.

Although classroom dollar percentages are primarily associated with district size, they also vary within each size group and every size group includes districts that have

percentages above the state average. Although smaller districts must spread their fixed, noninstructional costs among fewer students, many are still able to spend a higher percentage of their dollars in the classroom than the state average. According to district officials at some of these small-sized districts with high classroom dollar percentages, they were able to lower their noninstructional costs by having employees perform several jobs and hiring part-time staff.

Proposition 301 performance pay plans meet statutory requirements, but some are weak (see pages 13 through 15)

Establishing meaningful teacher performance pay plans is important because it can potentially lead to improved student achievement. Auditors' review of limited research conducted on other states' performance pay plans points to specific instances in which student academic achievement gains appear to be linked to performance pay incentive opportunities. Arizona Revised Statutes specify student academic achievement as one type of goal that districts can include in performance pay plans. However, statute also allows districts to choose which types of goals they incorporate into their plans.

For fiscal year 2008, all school districts' plans met statutory requirements, in that all identified at least one goal. However, some plans were stronger than others. Of the 223 districts receiving CSF monies, auditors identified 18 districts that had plan goals addressing a variety of performance measurement elements listed in statute, and that appeared to do a good job of linking performance pay to student achievement. For example, some plans required teachers to determine specific strategies to help their students meet student achievement goals. Auditors also identified 32 performance pay plans that appeared weak because they had goals that allowed teachers to earn performance pay for responsibilities that are a regular part of their jobs, or simply did not require performance above and beyond already expected levels. For example, some districts awarded performance pay to teachers for receiving satisfactory performance evaluations or for attending in-service training sessions that were already required in teacher contracts and that were held during normal working hours.

Appendices (see pages a-1 through a-235)

Appendix A summarizes each district's classroom dollar percentage for fiscal year 2008. Appendix B presents more specific one-page summaries of each district's expenditure information, including classroom and nonclassroom spending, comparisons to state and national averages, and reported uses of CSF monies. Appendix C contains a detailed discussion of the definition of the classroom dollar percentage and the scope and methodology employed during this study.

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Introduction & Objectives

The Office of the Auditor General has conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom. This analysis was conducted pursuant to Arizona Revised Statutes (A.R.S.) §41-1279.03, which requires the Auditor General to monitor the percentage of each dollar spent in the classroom and conduct performance audits of Arizona's school districts.

This report has two main objectives:

- It presents state-wide trends in classroom and nonclassroom spending, including factors associated with districts that spend a greater percentage of their dollars in the classroom.
- It analyzes districts' use of Proposition 301 funding and the adequacy of the districts' performance pay plans. In November 2000, voters approved Proposition 301. This proposition raised the state sales tax by six-tenths of 1 percent for 20 years to fund educational programs. A portion of the monies raised through this additional tax are distributed to districts through a centralized state fund called the Classroom Site Fund (CSF). School districts may use this funding only for specified purposes, primarily increasing teacher pay.

While the body of the report focuses on state-wide information, Appendix A summarizes each district's classroom dollar percentage for fiscal year 2008, and Appendix B presents more specific one-page summaries of each district's expenditure information, including classroom and nonclassroom spending and reported uses of CSF monies.

The information used to prepare this report was not subjected to all the tests and confirmations that would be performed during an audit. However, to ensure the reasonableness of the information used in this report, auditors performed certain quality control procedures. Appendix C contains a detailed discussion of the definition of the classroom dollar percentage and the scope and methodology employed during this study.

The Auditor General and her staff express their appreciation to the Superintendent of Public Instruction, the staff of the Arizona Department of Education, and the staffs of the Arizona public school districts for their cooperation and assistance during this study.

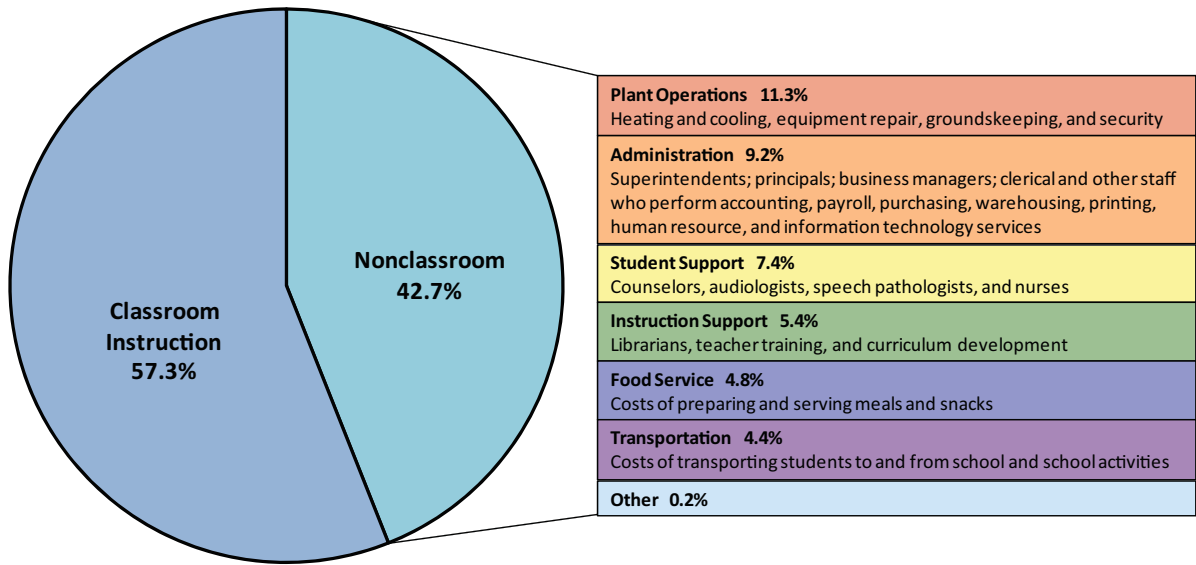
School District Spending Shifts Away from the Classroom

Despite an average annual increase of about \$300 million of Classroom Site Fund (CSF) monies, Arizona's state-wide percentage of dollars spent in the classroom decreased from 57.7 percent in fiscal year 2001, the year prior to receipt of the first CSF monies, to 57.3 percent in fiscal year 2008. With the infusion of these CSF monies and other significant state-provided resources largely directed to the classroom, teachers' salaries could have been about \$7,500 higher, on average, but districts appear to be using these monies to supplant—or replace, rather than add to—other monies, a violation of A.R.S. §15-977(A). As the percentage of classroom spending from non-CSF monies has declined since 2001, the percentage of noninstructional spending has increased, particularly for instructional support services, including teacher training and student support services, such as physical and speech therapies. These increases may be explained, in part, by changes in how districts provide for those services and in the number of students served. However, supplanting instructional spending for these purposes is not allowable. Further, the increased level of noninstructional spending does not appear to be explained by inflationary pressures, since increases in revenues per pupil between fiscal years 2001 and 2008 for Arizona's districts have outpaced inflation during those years on average.

Arizona's 57.3 classroom dollar percentage lower than 2001 level

In 2001, before CSF monies were available, Arizona's districts spent 57.7 cents of each dollar in their classrooms. As seen in Figure 1 on page 4, in fiscal year 2008 districts spent only 57.3 percent in the classroom. This percentage is the lowest it has been in the 8 years that the Auditor General has been monitoring classroom dollars.

Figure 1: Current Expenditures by Functional Area
Fiscal Year 2008



Source: Auditor General staff analysis of fiscal year 2008 summary accounting data provided by individual school districts.

The State's classroom dollar percentage remains more than 3 percentage points below the most recent national average of 61 percent. Based on data available from the U.S. Department of Education's National Center for Education Statistics, the national average has remained between 61 and 62 percent for more than 10 years.

CSF monies spent on instruction, but have not increased Arizona's classroom dollar percentage

Beginning in fiscal year 2002, Proposition 301 provided new monies for Arizona school districts called Classroom Site Fund monies. These CSF monies are largely restricted for classroom purposes, primarily for increasing teacher pay. In fiscal year 2008, approximately \$501 million of Proposition 301 monies went to the Classroom Site Fund for allocation to school districts, charter schools, and the state schools for deaf, blind, and committed youth. The Arizona Department of Education (ADE) distributes CSF monies to districts based on a per-pupil rate set by the Joint Legislative Budget Committee (JLBC). For fiscal year 2008, the JLBC established a \$401 per-pupil rate. In total, ADE distributed approximately \$447 million to school districts, and \$54 million to charter and other state schools.

Since 2002, districts have consistently spent over 90 percent of CSF monies for instructional purposes, such as teacher pay. In fiscal year 2008, districts spent almost \$421 million in CSF monies, with the unspent monies remaining in the districts' Classroom Site Fund for future years. Almost all of these expenditures, 99.9 percent, appear appropriate and allowable under statute. However some were not. For example, one district inappropriately spent about \$247,000 to pay employee insurance costs for administration and plant employees who were not eligible to receive CSF monies. Another district inappropriately spent about \$350,000 to pay for the entire salaries of four employees who were not eligible to receive CSF monies because they did not provide instruction to students.

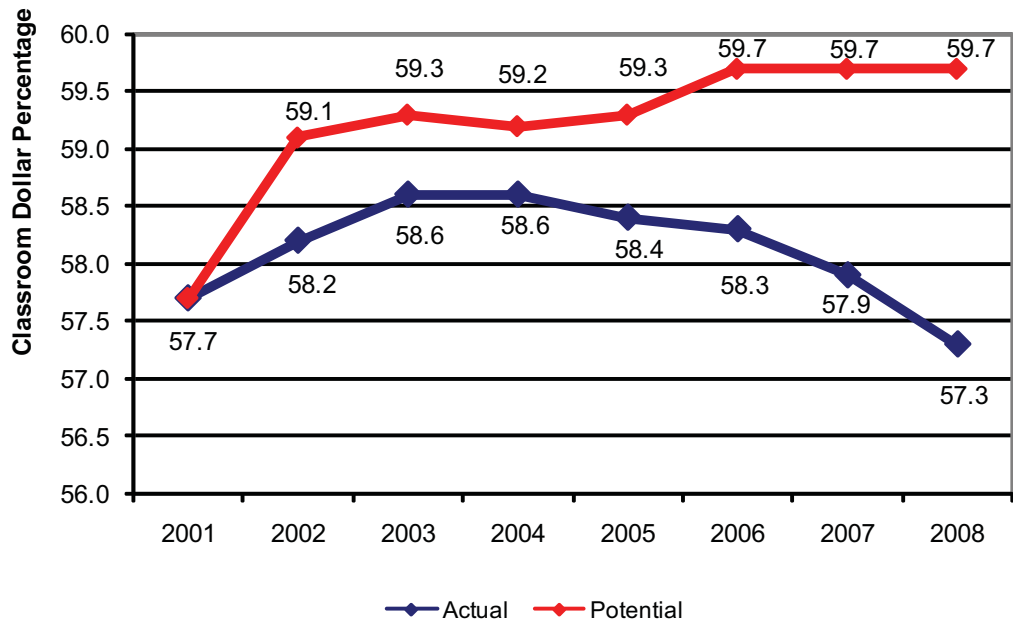
Despite districts' spending CSF monies for instructional purposes, the state classroom dollar percentage has declined. In fact, after a 7-year total increase of nearly \$2.1 billion of CSF monies, an average annual increase of about \$300 million, the state-wide classroom dollar percentage is now lower than it was prior to receipt of the first CSF monies. As seen in Figure 2 on page 6, after an initial 2-year increase, the classroom dollar percentage has steadily decreased each of the last 4 years.

Arizona's classroom dollar percentage and teacher salaries should be higher, but districts used CSF monies to supplant other monies

Arizona school district spending patterns over the past several years indicate districts are likely using CSF monies to supplant other district monies, which is a violation of Arizona Revised Statutes §15-977(A). Supplanting means that districts have used the CSF monies to replace, rather than add to, monies being spent in the classroom. Many districts are not spending their other monies for instructional activities at the same level of effort they did prior to receiving CSF monies. This declining level of effort is evident in the lower percentages of non-CSF monies spent in the classroom and on teacher salaries.

Classroom spending—As shown in Figure 2 on page 6, in fiscal year 2008, Arizona school districts' actual classroom dollar percentage is 2.4 percentage points lower than what it would have been had districts actually used CSF monies to supplement their classroom spending rather than replace monies used in the classroom. If districts had continued spending their non-CSF monies in the classroom at the same rate they did prior to receiving CSF monies, the fiscal year 2008 state-wide classroom dollar percentage would have been 59.7 percent and approaching the national average of 61 percent.

Figure 2: Arizona Actual and Potential Classroom Dollar Percentages
Fiscal Years 2001 through 2008



Source: Auditor General staff analysis of fiscal year 2008 School District Annual Financial Reports provided by the Arizona Department of Education, fiscal year 2008 summary accounting data provided by individual school districts, and previous reports on *Arizona Public School Districts' Dollars Spent in the Classroom*, fiscal years 2001 through 2007.

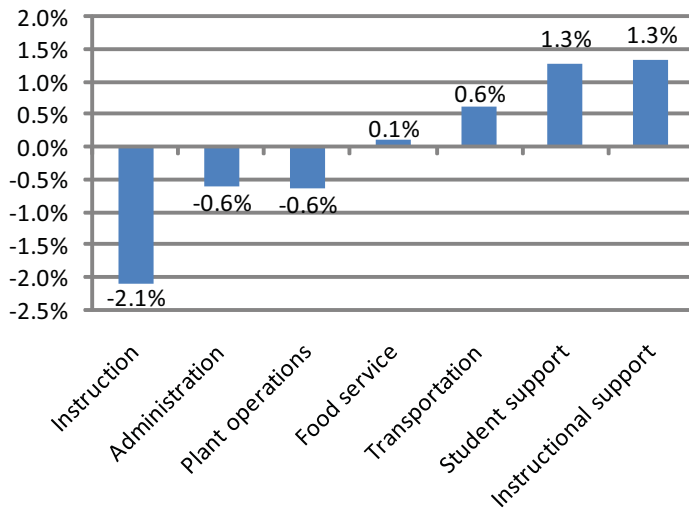
Teacher salaries—In fiscal year 2001, before receiving any CSF monies, districts spent 40 percent of their available operating dollars on teacher salaries. By fiscal year 2008, teacher salaries comprised only 34 percent of total non-CSF spending, a decline of 6 percent. Over this same period, the percentage spent on noninstructional salaries, such as those spent for plant maintenance and operations staff and bus drivers, decreased by less than 1 percent. If districts had continued to spend their non-CSF monies for teacher salaries at the same rate in 2008 as they did in 2001, the average salary for teachers would be about \$7,500 higher than it actually is.

As percentage of instruction spending declined, districts spent more on student support and instructional support services

To identify districts' changing levels of effort in various function areas, auditors compared how districts spent non-CSF monies in fiscal years 2001 and 2008. Between those years, districts reduced their level of instructional spending of non-

CSF monies from 57.7 percent to 55.6 percent. As seen in Figure 3, districts also reduced the percentages spent on administration and plant operations and maintenance. At the same time, districts increased the percentages of non-CSF spending primarily for student support and instructional support services.

Figure 3: Changes in Spending from Monies Other than the Classroom Site Fund, by Functional Area Between Fiscal Years 2001 and 2008



Source: Auditor General staff analysis of fiscal year 2008 school district Annual Financial Reports provided by the Arizona Department of Education, fiscal year 2008 summary accounting data provided by individual school districts, and previous reports on *Arizona Public School Districts' Dollars Spent in the Classroom*, fiscal years 2001 through 2007.

Increases in student support and instructional support not tied to inflation but potentially other factors

Auditors examined possible explanations for the increases in student support and instructional support services, including possible disproportionate inflationary pressures in those and other noninstruction cost areas and changing support service needs at the districts. Auditors found that:

Inflation was not a key factor for the increases—The increased percentages of noninstructional spending do not appear to be explained by inflationary pressures, either in total or in key noninstructional areas. Since 2001, increases in Arizona's per-pupil revenues have outpaced inflation, on average. As seen in Table 1 on page 8, the consumer price index (CPI) has increased by an average of 2.8 percent per fiscal year, while the districts' total and available operating revenues per pupil have increased by averages of 4.9 and 5.4 percent per fiscal year, respectively.

**Table 1: Inflation Rates and Changes in Per-Pupil Revenues
Fiscal Years 2002 through 2008**

	2002	2003	2004	2005	2006	2007	2008	Average
Consumer price index	1.8%	2.2%	2.2%	3.0%	3.8%	2.6%	3.7%	2.8%
Per-pupil revenues								
Total (including capital)	6.4	4.1	1.4	7.3	3.9	7.5	3.5	4.9
Available operating¹	8.8	4.6	5.4	3.2	5.2	5.9	4.7	5.4

¹ Available operating revenues consist of monies available to pay for districts' day-to-day operations. They exclude certain revenues associated with repaying debt, capital outlay, and programs outside the scope of pre-school through grade 12 education.

Source: Auditor General staff analysis of Consumer Price Index information from the U.S. Department of Commerce, Bureau of Labor Statistics; and school district Annual Financial Reports provided by the Arizona Department of Education from fiscal years 2001 through 2008.

Further, inflationary pressures within key noninstructional cost areas are consistent with the CPI and do not explain the disproportionate rise in noninstructional spending. From 2001 to 2007, the most recent year of data available, salaries for Arizona's student support services industry increased by 2.7 percent each year, on average.¹ Similarly, hourly wages for Arizona's plant operation and transportation industries increased by averages of 2.6 and 2.0 percent each year, respectively. The transportation wages are significant because, despite the focus that fuel costs receive, wages constitute about 70 percent of the districts' total transportation costs, on average. In addition, Arizona's energy inflation index has increased 3.5 percent annually, on average, between 2003 and 2007.² Therefore, changes in how districts spend non-CSF monies are not explained by skewed inflationary pressures from certain noninstructional industries.

District approach to support services staffing may have changed—

Districts may have changed how they provide certain support services. Districts appear to have switched from in-house employees to contracted positions for instructional and student support services such as teacher training, counseling, and physical and speech therapy, since less money is spent for salaries and more money is spent on purchased services in those areas. According to district officials, specialists in these services have been leaving district positions and returning as contractors at a higher cost to districts.

¹ Workforce wage data is compiled by Bureau of Labor Statistic's Occupational Employment Statistics program with the collaboration of Arizona's Workforce Agency. Student support service positions include psychologists, speech and physical therapists, counselors, and social workers. The plant operations and maintenance industry includes positions such as custodians, air conditioning and heating technicians, and other maintenance and repair workers.

² Arizona's energy index was calculated based on state-level electric power monthly reports from the U.S. Energy Information Administration, using year-to-year changes in the total price per kilowatt hour from all industries. This information is only available between fiscal years 2003 and 2007.

More special education students—Many student support services are directed toward disadvantaged and special needs populations. Compared to other students, disadvantaged students may receive more social, health, and attendance services, and special education students may receive more physical and behavioral therapy and be assessed and treated more often for speech, hearing, and language impairment. A common identifier of disadvantaged students is whether they live in families with incomes below the federal poverty line. The percentage of students living below the poverty line has not significantly increased since 2001. However, the percentage of students requiring special education has increased substantially. In fiscal year 2001, students receiving special education services composed 9.8 percent of the total student population, compared to 11.3 percent in fiscal year 2008, a 15 percent increase. Districts receive additional funding for these students through the budgetary formula.

Regardless of the districts' changing circumstances related to contracting for certain support services and responding to a growing special needs population, using CSF monies to supplant non-CSF monies for these purposes is in direct violation of A.R.S. §15-977(A).

Higher Classroom Dollar Percentage Associated With—but Not Dependent Upon—Larger District Size

Within Arizona, the districts with the highest classroom dollar percentages are typically larger, provide less building space per student, and have higher student-employee ratios. The districts with the lowest classroom dollar percentages have fewer students, encompass more square miles, and have higher percentages of disadvantaged students. Although classroom dollar percentages are primarily associated with district size, they also vary within each size group. For example, many smaller districts still have classroom dollar percentages that are higher than the state average.

Larger districts typically have higher classroom dollar percentages

District size continues to be the primary factor associated with higher classroom spending percentages for Arizona school districts.¹ Larger districts are able to achieve economies of scale by spreading noninstructional costs over more students, leaving additional dollars to spend in the classroom. As seen in Table 2 on page 12, as district size increases, so does the classroom dollar percentage, on average.

Further, and perhaps related to their large numbers of students, the districts with the highest percentages also tend to provide 42 percent less building space per student and serve almost twice as many students per administrative position. The districts with the highest percentages also have 14 percent larger class sizes and pay their teachers \$2,764 more, on average, than the lower-percentage districts, despite having teachers with a similar amount of experience. There are two additional factors not related to size that may affect classroom spending. The districts with the lowest classroom dollar percentages have twice as many students living below the poverty level and transport their students almost twice as many miles per rider as the highest percentage districts, on average. These factors increase the per-pupil student services and transportation costs, respectively.

¹ Since 2002, similar factors have been reported in each fiscal year of the Auditor General's annual special study, *Arizona Public School Districts' Dollars Spent in the Classroom*.

Table 2: Average Classroom Dollar Percentages and Associated Ranges of Districts Grouped by Size Fiscal Year 2008

District Size	Number of Districts	Number of Students	Classroom Dollar Percentage	
			Average	Range
Very large	11	20,000 or more	59.4%	53.4%—63.2%
Large	38	5,000 to 19,999	56.9	51.2—63.3
Medium	74	600-4,999	54.5	38.6—62.7
Small	31	200-599	53.5	41.5—63.9
Very small	54	Less than 200	53.4	31.3—77.3

Source: Auditor General staff analysis of fiscal year 2008 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Many small and medium districts still manage to maintain high classroom dollar percentages

As seen in Table 2, size is associated with but not the sole predictor of classroom dollar percentage, as all size groups have districts with high and low percentages and every size group includes districts that have percentages above the state average. Although smaller districts must spread their fixed, noninstructional costs among fewer students, many are still able to spend a higher percentage of their dollars in the classroom than the state average. Eight of the 31 small school districts and 24 of the 74 medium districts had classroom dollar percentages above the state-wide average. Several of these districts with high classroom dollar percentages also had high poverty rates, exceeding 20 percent of their student population. According to district officials at some of these small-sized districts with high classroom dollar percentages, they were able to lower their noninstructional costs by having employees perform several jobs and hiring part-time staff. For example, superintendents at these districts often had additional responsibilities, such as principal, curriculum director, and grants manager. One superintendent also served as the transportation director and special education director. Several district office employees were part-time, including business managers, and most had at least two job titles. At one district, teachers were paid stipends to perform additional responsibilities, such as serving as the grants manager. Although these small districts cannot spread fixed costs over large numbers of students, they chose to spread responsibilities over available employees.

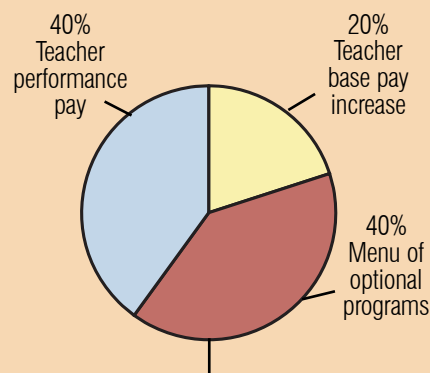
Proposition 301 Performance Pay Plans Meet Statutory Requirements, but Some Are Weak

Establishing meaningful teacher performance pay plans is important because it can potentially lead to improved student achievement. Auditors' review of limited research conducted on other states' performance pay plans points to specific instances in which student academic achievement gains appear to be linked to performance pay incentive opportunities. While Arizona Revised Statutes provide guidance on the types of goals school districts should incorporate into their performance pay plans, including student academic achievement, it also allows districts to choose which types of goals they incorporate into their plans. All school districts' plans meet statutory requirements, in that all identify at least one goal, but some are weak because they base performance pay on goals that are already included as part of teachers' normal responsibilities or ones that do not require teachers to improve their performance above and beyond already expected levels. In addition, some goals do not sufficiently tie performance pay to increased student achievement.

Statutory performance pay plan requirements

Arizona Revised Statutes (A.R.S.) §15-977 directs districts to use at least 60 percent of CSF monies for teacher compensation (see textbox). Districts are required to direct 40 percent toward pay for performance. In 2005, the Legislature established requirements for Proposition 301 performance pay, which previously did not have guidelines. These new requirements specify that school district governing boards must adopt performance pay plans at public meetings and that the plans should include the following performance measurement elements:

Required apportionment of Proposition 301 monies



- AIMS intervention programs
- Class size reduction
- Dropout prevention programs
- Teacher compensation increases
- Teacher development
- Teacher liability insurance premiums

- School performance;
- District performance;
- Other measures of academic progress;
- Dropout/graduation rates;
- Attendance rates; and
- School quality ratings from parents and students.

However, districts may modify these elements or consider additional elements as long as the performance pay plan is adopted at a public meeting. Common additional performance measurement elements that some school districts incorporate into their plans include goals addressing teacher performance evaluations, professional development, tutoring, leadership, and parent involvement.

Districts' plans meet requirements but vary widely in quality

In fiscal year 2008, all 223 school districts receiving CSF monies included one or more goals addressing the performance measurement elements outlined in statute. However, the plans vary in terms of the number of goals and the strength of those goals. Some are relatively strong. Most notably, in reviewing districts' required annual reporting of performance pay plan goals, auditors identified 18 districts that had plan goals addressing various statutory performance measurement elements and that appeared to do a good job of linking performance pay to student achievement. For example, these plans included goals that required:

- Students to meet targeted percentages of growth in standardized test or district assessment scores;
- Teachers to determine specific strategies to help their students meet student achievement goals; and
- Teacher evaluations that included specific evaluation points, such as lesson plans, that demonstrated the individual teachers' efforts to improve student achievement.

Some district performance pay plans are weak

By contrast, 32 districts' plans focused only on a few of the performance measurement elements, had goals that allowed teachers to earn performance pay for responsibilities that are a regular part of their jobs, or simply did not require performance above and beyond already expected levels. For example, of the 32 districts, 17 did not include any specific goals requiring improved student achievement, 3 based performance pay solely on teachers attending professional development activities, 3 awarded performance pay based on the requirement that teachers receive satisfactory performance evaluations, and 1 allowed teachers to earn performance pay based on the number of students in attendance on the 100th day of school. In addition, during performance audits conducted in 2007 and 2008, auditors identified 3 districts with weak performance pay plans. Specifically:

- One district's performance pay plan goals included attending in-service training sessions that were already required in teacher contracts and that were held during normal working hours and therefore, represented performance payments not tied to additional performance.
- One district awarded the majority of performance pay based on activities that were already expected of employees, such as attending weekly team meetings and developing instructional calendars.
- Another district awarded performance pay based on requirements that included attending staff development meetings, participating in discussion groups, and tutoring students. However, many of these activities were already required in the contracts and took place during normal working hours.

A.R.S. §15-977 also requires districts to submit information on their compensation systems to ADE by December 31 each year through 2009. The plans are then reviewed by the Performance-Based Compensation Task Force, which is charged with developing and reporting recommendations on the implementation, operation, and monitoring of performance-based compensation systems in school districts to the Legislature by June 30, 2010.¹ According to the Task Force's February 2009 report to the Legislature, 205 districts submitted fiscal year 2008 performance-based compensation plans for review. During their review of the plans, the Task Force found that many of the plans complied with the law and demonstrated efforts to improve student achievement. However, the Task Force noted that many districts still need mentoring and direction as their plans tend to fall short of the expectations of the law and the standards set by the Task Force.

¹ According to A.R.S. §15-920.01, the Task Force consists of the following members appointed by the State Board of Education: three certified teachers, three certified school district administrators or governing board members, two members of the general public who do not hold active certificates in Arizona and are not employed by school districts, and four members of the general public who are employed in the private sector in capacities that involved or promote economic development.

Vertical line with a diamond symbol at the bottom.

Appendix A

This appendix lists the fiscal year 2008 classroom dollar percentages for each of the 208 districts grouped by size, 11 accommodation districts, and 11 joint technological education districts. For further information, see Appendix B, which provides alphabetically organized, one-page summaries for each district.

Table 3: Districts Grouped by Size (Average Daily Membership) and Ranked by Percentage of Dollars Spent in the Classroom¹ Fiscal Year 2008

Very Large (20,000+)		Large (Concl'd)		Medium (600-4,999)	
Group Average =	59.4%	Flowing Wells USD	57.7%	Group Average =	54.5%
Gilbert USD	63.2%	Amphitheater USD	57.5%	Safford USD	62.7%
Chandler USD	62.3%	Marana USD	57.3%	Thatcher USD	62.2%
Deer Valley USD	61.5%	Higley USD	57.0%	Bullhead City ESD	61.9%
Mesa USD	61.4%	Flagstaff USD	56.9%	Liberty ESD	61.0%
Paradise Valley USD	60.8%	Isaac ESD	56.8%	Buckeye ESD	60.8%
Scottsdale USD	60.4%	Cave Creek USD	56.7%	Colorado River UHSD	60.7%
Peoria USD	59.8%	Glendale ESD	56.5%	Queen Creek USD	60.7%
Washington ESD	57.6%	Roosevelt ESD	56.4%	Pima USD	60.4%
Dysart USD	57.3%	Phoenix ESD	56.3%	Snowflake USD	59.6%
Phoenix UHSD	56.1%	Pendergast ESD	56.3%	Blue Ridge USD	59.3%
Tucson USD	53.4%	Florence USD	56.2%	Tanque Verde USD	59.3%
		Crane ESD	56.0%	Mohave Valley ESD	58.8%
Large (5,000-19,999)		Tolleson UHSD	55.3%	Wickenburg USD	58.8%
Group Average =	56.9%	Tempe ESD	55.3%	Balsz ESD	58.7%
Kyrene ESD	63.3%	Kingman USD	55.2%	Whiteriver USD	58.7%
Prescott USD	62.2%	Sunnyside USD	55.2%	Mingus UHSD	58.5%
Cartwright ESD	61.6%	Madison ESD	55.0%	Willcox USD	58.4%
Humboldt USD	60.1%	Apache Junction USD	54.5%	Payson USD	58.3%
Tempe UHSD	59.9%	Nogales USD	54.3%	Douglas USD	58.2%
Vail USD	59.9%	Agua Fria UHSD	54.3%	Toltec ESD	58.0%
Lake Havasu USD	59.8%	Sierra Vista USD	54.3%	Chino Valley USD	57.8%
Maricopa USD	59.7%	Casa Grande ESD	52.8%	Littleton ESD	57.7%
Avondale ESD	59.7%	Yuma ESD	52.7%	Riverside ESD	57.5%
Alhambra ESD	59.4%	Creighton ESD	51.9%	Fowler ESD	57.5%
Glendale UHSD	58.5%	Yuma UHSD	51.2%	Fountain Hills USD	57.1%
Litchfield ESD	57.9%			Laveen ESD	57.0%

¹ Accommodation and Joint Technological Education Districts are grouped separately.

Table 3 (Cont'd)

Medium (Concl'd)		Small (200-599)		Very Small (Concl'd)	
Holbrook USD	57.0%	Group Average =	53.5%	Elfrida ESD	57.2%
Benson USD	56.9%	Wellton ESD	63.9%	Skull Valley ESD	57.1%
Santa Cruz Valley USD	56.7%	Naco ESD	63.1%	Pomerene ESD	56.2%
Show Low USD	56.5%	Beaver Creek ESD	62.0%	Alpine ESD	56.2%
Morenci USD	56.5%	Continental ESD	61.3%	Pearce ESD	55.3%
Williams USD	56.5%	Clarkdale-Jerome ESD	61.0%	Patagonia ESD	54.7%
Casa Grande UHSD	56.4%	Fredonia-Moccasin USD	59.9%	Young ESD	54.7%
Wilson ESD	55.9%	Picacho ESD	57.9%	Bouse ESD	54.7%
Palominas ESD	55.9%	St. David USD	57.5%	San Simon USD	54.3%
Cottonwood-		Arlington ESD	57.2%	Seligman USD	54.2%
Oak Creek ESD	55.8%	Ajo USD	56.9%	Tonto Basin ESD	54.0%
Miami USD	55.7%	Bagdad USD	55.7%	Solomon ESD	53.8%
Mammoth-		Ray USD	55.5%	Bowie USD	53.7%
San Manuel USD	55.5%	Duncan USD	55.3%	Peach Springs USD	53.7%
Buckeye UHSD	55.5%	Littlefield USD	54.6%	Sentinel ESD	53.0%
Camp Verde USD	55.2%	Ft. Thomas USD	54.6%	Congress ESD	52.6%
Sedona-Oak Creek JUSD	55.1%	Superior USD	54.2%	Topock ESD	52.4%
Union ESD	55.0%	Antelope UHSD	53.4%	Mohawk Valley ESD	52.4%
Catalina Foothills USD	55.0%	Ash Fork Joint USD	52.8%	Hyder ESD	52.2%
Sahuarita USD	54.7%	Hayden-		Kirkland ESD	51.8%
Round Valley USD	54.3%	Winkelman USD	51.5%	McNeal ESD	51.8%
Winslow USD	53.8%	Palo Verde ESD	50.4%	Paloma ESD	51.4%
Parker USD	53.8%	Mayer USD	50.2%	San Fernando ESD	51.2%
Nadaburg USD	53.8%	Oracle ESD	50.0%	Pine Strawberry ESD	50.7%
Globe USD	53.7%	Joseph City USD	49.4%	Valley UHSD	50.3%
St. Johns USD	53.6%	Gila Bend USD	48.8%	Yarnell ESD	50.0%
J. O. Combs USD	53.1%	Quartzsite ESD	48.8%	Morristown ESD	49.9%
Page USD	52.5%	Heber-Overgaard USD	48.0%	Canon ESD	47.4%
Tolleson ESD	52.3%	Sacaton ESD	47.2%	Wenden ESD	45.8%
Coolidge USD	52.0%	Grand Canyon USD	45.9%	Maine Consolidated SD	45.8%
Eloy ESD	51.5%	Colorado City USD	45.1%	Clifton USD	41.7%
Gadsden ESD	51.4%	Cedar USD	44.8%	Hackberry ESD	41.2%
Indian Oasis-		Santa Cruz Valley UHSD	41.5%	Concho ESD	40.5%
Baboquivari USD	51.1%			Salome ESD	39.5%
Murphy ESD	51.0%	Very Small (1-199)		Patagonia UHSD	39.2%
San Carlos USD	50.7%	Group Average =	53.4%	Vernon ESD	38.3%
Window Rock USD	50.4%	Valentine ESD	77.3%	Ash Creek ESD	38.0%
Osborn ESD	49.6%	Blue ESD	73.7%	Bicentennial UHSD	36.4%
Bisbee USD	49.3%	Crown King ESD	68.0%	Mobile ESD	31.3%
Sanders USD	49.1%	Hillside ESD	67.9%		
Chinle USD	48.6%	Red Rock ESD	66.1%		
Altar Valley ESD	48.0%	Sonoita ESD	65.7%		
Somerton ESD	47.9%	Yucca ESD	61.7%		
Stanfield ESD	47.2%	Owens-Whitney ESD	61.7%		
Tombstone USD	47.2%	Double Adobe ESD	61.6%		
Saddle Mountain USD	47.1%	Mcnary ESD	61.5%		
Ganado USD	46.7%	Bonita ESD	60.0%		
Tuba City USD	43.7%	Santa Cruz ESD	58.8%		
Kayenta USD	43.1%	Cochise ESD	58.8%		
Pinon USD	42.1%	Apache ESD	58.5%		
Red Mesa USD	38.6%	Aguila ESD	57.4%		

Table 3 (Concl'd)

Accommodation	
Group Average =	45.3%
Ft. Huachuca ASD	58.8%
Pima ASD	54.8%
Gila County Regional SD	53.3%
Yavapai ASD	51.0%
Mary C. O'Brien ASD	50.4%
Maricopa County Regional SD	49.0%
Pinal County Special Education Program	43.9%
Coconino County Regional ASD	42.8%
Rainbow ASD	38.3%
Graham County Special Services	36.4%
Santa Cruz County Regional SD	19.7%
Joint Technological Education¹	
Group Average =	30.8%
Northern Arizona Vocational Institute of Technology	62.0%
Valley Academy for Career and Technology Education	61.4%
Northeast Arizona Technological Institute of Vocational Education	61.2%
East Valley Institute of Technology	51.7%
Central Arizona Valley Institute of Technology	38.3%
Western Maricopa Education Center	33.2%
Gila Institute for Technology	20.2%
Pima County JTED	10.1%
Coconino Association for Vocation Industry and Technology	0.6%
Cobre Valley Institute of Technology District	0.0%
Cochise Technology School District	0.0%

¹ The percentages for Joint Technological Education Districts include only their direct expenditures and exclude monies passed through to their member school districts.

Source: Auditor General staff analysis of fiscal year 2008 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Appendix B

This appendix provides alphabetically organized one-page information sheets on individual school districts. Each page contains a summary of the district's reported results using Proposition 301 monies, and its classroom and nonclassroom spending. Each page also contains descriptive and comparative information; n/a is used to indicate if data is not available or is not applicable.

Table 4 shows the data sources used on the individual district pages and defines some common terms and acronyms used to describe districts' Proposition 301 goals and results. Also, for reference, a map of the Arizona counties is included as Figure 4 on page a-8.

Table 4: Individual District Page Source Information

Data	Source
Students attending	Auditor General staff analysis of Arizona Department of Education's (ADE) average daily membership (ADM) counts for fiscal year 2008. ADM numbers are rounded to the nearest whole number. Auditors included kindergarten students' ADM at a full count for the districts that offer all-day kindergarten at no charge to parents.
District size	Auditor General staff analysis of ADE's fiscal year 2008 ADM counts. District sizes were categorized as follows: <ul style="list-style-type: none"> • Very large 20,000+ • Large 5,000 to 19,999 • Medium 600 to 4,999 • Small 200 to 599 • Very small Fewer than 200
Number of schools	ADE fiscal year 2008 data.
Number of certified teachers	ADE October 2007 data on full-time-equivalent (FTE) certified teachers for fiscal year 2008. Certified FTE numbers are rounded to the nearest whole number.
Student/teacher ratio, district and state for 2006, 2007, and 2008	Auditor General staff analysis of ADE's ADM and certified teacher counts for fiscal years 2006, 2007, and 2008.

Table 4 (Cont'd)

Data	Source
Average teacher salary, state—2008	ADE average annual salaries associated with full-time-equivalent certified teachers, for fiscal year 2008.
Average teacher salary, district—2006, 2007, and 2008	District-reported average fiscal years 2006, 2007, and 2008 teacher salaries, including Proposition 301 monies. Some districts reported corrections to their previously reported prior years' average salary information.
Average years' experience, district—2006, 2007, and 2008; and state—2008	ADE average years' experience associated with full-time-equivalent certified teachers, by district, for fiscal years 2006, 2007, and 2008. The maximum years of experience that ADE includes for calculation and reporting purposes is 15 years.
Classroom dollars—Pie chart and per-pupil expenditures	Auditor General staff analysis of fiscal year 2008 school district summary accounting data and Annual Financial Reports (AFRs), and ADE's fiscal year 2008 ADM counts.
Classroom dollar ranking	Auditor General staff analysis of 230 Arizona school districts' summary accounting data and AFRs. The ranking numbers are from 1 (highest) to 230 (lowest) based on percentage of dollars spent in the classroom.
5-year comparison—District and state percentages for 2004 through 2008	Auditor General staff analysis of school district summary accounting data and AFRs for fiscal years 2004 through 2008.
Expenditures by function—District and state percentages in fiscal years 2004 through 2008	Auditor General staff analysis of school district summary accounting data for fiscal years 2004 through 2008.
Expenditures by function—National Percentage	NCES fiscal year 2006 data. Although the 2008 data is not yet available, the national percentages have been relatively stable. For the most recent 5-year period that is available, fiscal years 2002 to 2006, the variations were less than 0.3 percent in any of the functional categories.
Proposition 301—District-reported results	Auditor General staff analysis of district-reported Classroom Site Fund Narrative Results. The narrative form was completed by each of the 223 districts receiving Proposition 301 monies in fiscal year 2008.

♦

Table 4 (Concl'd)

Definitions of commonly used terms and acronyms

AZ LEARNS	Arizona LEARNS is an accountability program administered by ADE and established under A.R.S. §15-241 to rank school performance using standardized test results and other criteria. Using these criteria, ADE annually labels schools as “excelling,” “highly performing,” “performing,” “performing plus,” “underperforming,” or “failing to meet academic standards.”
AIMS	AIMS, or Arizona’s Instrument to Measure Standards, is a series of standardized tests that assess student achievement in reading, writing, and math. The tests are administered to students in grades 3 through 8, and high school. To graduate from high school, students must successfully pass these tests during high school.

Figure 4: Map of Arizona Counties



Appendix C

Definition of the classroom dollar percentage

The classroom dollar percentage is the amount spent for classroom purposes divided by the total amount spent for day-to-day operations, or total current expenditures. Current expenditures exclude monies spent for debt repayment; capital outlay, such as purchasing land, buildings, and equipment; and programs outside the scope of K-12 education, such as adult education and community services. Total current expenditures include classroom and nonclassroom expenses as shown below:

Classroom dollars

- **Classroom personnel**—Teachers, teachers' aides, substitute teachers, graders, and guest lecturers
- **General instructional supplies**—Paper, pencils, crayons, etc.
- **Instructional aids**—Textbooks, workbooks, software, films, etc.
- **Activities**—Field trips, athletics, and co-curricular activities such as choir and band
- **Tuition**—Paid to out-of-state and private institutions

Nonclassroom dollars

- **Administration**—Superintendents; principals; business managers; and clerical and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource, and information technology services
- **Plant operations and maintenance**—Heating and cooling, equipment repair, groundskeeping, and security
- **Food service**—Costs of preparing and serving meals and snacks
- **Transportation**—Costs of transporting students to and from school and school activities
- **Instructional support services**—Librarians, teacher training, and curriculum development
- **Student support services**—Counselors, attendance clerks, audiologists, speech pathologists, and nurses

Scope

All of the State's 240 school districts were included in the calculation of the state-wide classroom dollar percentage and analysis of state-wide supplanting. However, some districts were excluded from further analysis:

- When calculating individual district classroom dollar percentages, transporting districts were excluded. These districts transport all their students to other districts and, therefore, do not have classroom expenditures.
- When analyzing factors that affect the percentages, accommodation districts, joint technological education districts, and very small districts were also excluded. Accommodation and joint technological education districts are unique in operation and few in number, and would, thereby, distort the analysis of factors generally affecting other district types. The operations and spending patterns of the 54 very small districts, those with fewer than 200 students, are highly variable and do not contribute to identifying state-wide trends and norms. These three types of districts are listed separately in Appendix A.
- Only 223 districts received CSF monies for fiscal year 2008. The 17 districts not receiving fiscal year 2008 Proposition 301 monies included the 10 transporting districts and 7 of the 11 joint technological education districts.

Methodology

To analyze the most current expenditure and budget data available for Arizona's districts, auditors obtained fiscal year 2008 school district Annual Financial Reports (AFRs) and budgets from the Arizona Department of Education (ADE). In addition, all of the State's 240 school districts provided auditors with fiscal year 2008 summary accounting data, and 223 school districts submitted summaries of their CSF expenditures and program results. The information used to prepare this report was not audited; however, it was subject to certain quality control procedures to help ensure its reasonableness. For example, instead of auditing the AFRs, budgets, and summary accounting data to the underlying district records, auditors performed analytical procedures using the financial data and CSF narratives of program results and interviewed school district officials about significant anomalies or variances. Auditors corrected any data errors prior to calculating classroom dollar percentages and analyzing CSF expenditures.

Other information related to the analysis was obtained from ADE, such as school district staffing levels and average daily membership counts. In addition, auditors obtained state-level data, including staffing, enrollment, and financial data, from the National Center for Education Statistics and poverty rates from the U.S. Census Bureau. To account for inflationary pressures on district spending, auditors compared yearly changes in district spending to changes in the Consumer Price Index calculated by the Bureau of Labor Statistics (BLS) and industry-specific workforce wages compiled by BLS's Occupational Employment Statistics program with the collaboration of Arizona's Workforce Agency. Auditors also considered the impact of energy costs by calculating yearly changes in the total price per kilowatt hour across Arizona using Official Energy Statistics calculated by the U.S. Energy Information Administration.

Auditors made certain adjustments to the Arizona district-level data that affected the average daily membership (ADM) counts for districts that did not offer free all-day kindergarten. This adjustment, which was needed to improve ADM comparability between districts, was made at the school level based on district responses to a survey. Auditors also made certain adjustments that affected the classroom dollar results reported for the State's 11 joint technological education districts. These districts typically pass through more than 50 percent of their available funding to their member school districts. Thus, to avoid the same expenditures being counted for both the joint technological education districts and their member districts, classroom dollar percentages were calculated using only direct expenditures.