



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Division of School Audits

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Special Study

# Arizona Public School Districts' Dollars Spent in the Classroom Fiscal Year 2006

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FEBRUARY • 2007



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**Debra K. Davenport**  
Auditor General

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**AUDITOR GENERAL**

**DEBRA K. DAVENPORT, CPA**  
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February 28, 2007

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

I am pleased to present our report, *Arizona Public School Districts' Dollars Spent in the Classroom, Fiscal Year 2006*. 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 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 2006, Arizona's state-wide percentage of dollars spent in the classroom decreased slightly, to 58.3 percent. This remains about 3 percentage points behind the national average of 61.5 percent reported by the National Center for Education Statistics. Arizona's lower classroom dollar percentage may be related to a combination of several factors, including low per-pupil spending, below average district size, high population growth, high student-to-teacher ratios, high poverty rates, and a high percentage of students eligible for free and reduced-price lunches. However, Arizona's classroom dollar percentage could have been higher. If districts had continued spending their resources as they did in fiscal year 2001, the additional Proposition 301 and Indian Gaming monies could have raised the State's classroom dollar percentage to 59.7 percent.

State-wide, Arizona school districts continue to spend a higher percentage of their dollars on plant costs, food services, and student support services than the national average, and a lower percentage on administrative costs. For individual districts, the primary factor associated with higher classroom dollar percentages continues to be larger student populations. Conversely, higher plant, administrative, student support, and transportation costs were the most significant factors associated with lower classroom dollar percentages. Within Arizona, higher per-pupil spending does not equate to higher classroom dollar percentages. In fact, districts that spend the most per pupil have lower classroom dollar percentages, on average.

Districts continued to use Proposition 301 monies almost solely for instructional staff salaries and benefits. Based on district-reported data, 12 percent of teacher salary amounts, on average, were attributable to Proposition 301 monies.

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

This report will be released to the public on March 1, 2007.

Sincerely,

Debbie Davenport  
Auditor General

# SUMMARY

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The Office of the Auditor General has conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom during fiscal year 2006. In addition, this report summarizes how districts reported spending their Classroom Site Fund monies resulting from Proposition 301, the education sales tax approved by voters in November 2000. 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 school districts. This is the sixth year the Office of the Auditor General has conducted this analysis.

The definition of classroom dollars used in this report is the same definition developed by the U.S. Department of Education's National Center for Education Statistics (NCES) for "instruction." This definition, as described in Table 1 (see page 2), includes current expenditures for classroom personnel, instructional supplies, instructional aids, certain tuition payments, field trips, athletics, and co-curricular activities. This year, for the first time, NCES has reported a combined category of instruction and instruction-related expenditures. Using either of these measures, Arizona consistently lags behind the national average by 3 to 4 percentage points. This report continues to use the instruction-only definition of classroom dollars because of this consistent relationship and because it more accurately reflects expenditures directly connected to educating students. In addition, this measure has been applied by NCES for a number of years and provides a basis for comparing Arizona's results with other states, the national average, and Arizona's past performance.

## Dollars in the classroom (see pages 7 through 29)

In fiscal year 2006, Arizona's state-wide percentage of dollars spent in the classroom was 58.3 percent, which was slightly less than the previous 3 years. Despite the infusion over the past 5 years of significant state-provided resources largely directed to the classroom, Arizona's classroom dollar percentage continues to lag about 3 percentage points behind the national average of 61.5 percent.

Arizona's classroom dollar percentage could have been higher. If districts had continued spending their other monies in the same proportions as they did in fiscal year 2001 prior to receiving the additional Proposition 301 and Indian gaming monies, the new monies would have raised the state-wide average to 59.7 percent. However, most districts now spend proportionately less of their other monies in the classroom than they did before Proposition 301.

Excluding certain special-purpose districts, classroom dollar percentages for individual districts ranged from 28.6 to 84.5 percent. This wide range is somewhat misleading, though, as nearly two-thirds of Arizona districts were within 5 percentage points of the state average. Many of the districts with very high or low percentages are the State's very smallest districts, which have fewer than 200 students each. Because of their size, these districts tend to either not provide some nonclassroom services, such as administration or food services, or have very high costs relative to their size to do so.

The 11 largest school districts in the State, those with more than 20,000 students, account for 43 percent of Arizona school districts' total current spending, and therefore, significantly impact the State's classroom dollar percentage. For example, between fiscal years 2005 and 2006, this group's classroom dollar percentage decreased by 0.1 percentage point, identical to the state-wide decrease. Even individual districts within this group can affect the state-wide average. For example, excluding just the district with the highest or lowest classroom dollar percentage within this group from the state-wide calculation would lower or raise the state-wide average by 0.2 percentage points.

Arizona's lower classroom dollar percentage may be related to a combination of several factors, including lower per-pupil spending, below average district size, higher population growth, higher student-to-teacher ratios, higher poverty rates, and higher percentages of students eligible for free and reduced-price meals. Although none of these factors individually appears to be associated with low classroom dollar percentages, they may have a relationship when combined. The ten other states with the lowest classroom dollar percentages share more of these characteristics with Arizona than do the ten states with the highest classroom dollar percentages.

Compared to national averages, Arizona school districts, on a state-wide basis, continue to allocate a lower percentage of their dollars to administration costs, but higher percentages of their dollars to plant costs, student support services, and food service. Energy and other supply costs account for more than half of the difference between the national and Arizona plant cost percentages. Similarly, student support service salaries account for more than half the difference in that category of spending. The higher salary costs appear related to each full-time equivalent employee serving, on average, fewer students than the national average. Higher food service expenditures may relate to Arizona's having a higher-than-average eligibility for the National School Lunch Program. In Arizona, a higher proportion of free- and

reduced-price-eligible students eat meals at school, which results in more meals being produced and higher food service costs.

Within Arizona, the primary factor associated with higher classroom dollar percentages continues to be larger student populations. Larger populations provide districts with more money, allowing them to meet their necessary fixed costs and leaving more money to devote to the classroom. Conversely, higher plant operation and maintenance, administration, student support services, and transportation costs were the most significant factors associated with lower classroom dollar percentages.

Further, within Arizona, higher total per-pupil spending does not equate to higher classroom dollar percentages. Although these districts have more resources available to spend per pupil, on average, they put a smaller proportion of each dollar in the classroom. As a result, districts with the highest per-pupil spending, on average, have lower classroom dollar percentages.

## Districts' uses of Proposition 301 monies (see pages 31 through 39)

Districts spent more than \$337 million from their Classroom Site Funds during fiscal year 2006 and continued to use the monies almost solely for teacher compensation. School districts had more monies available to spend than in previous years. This was largely because of increased sales tax revenues, but also due to the distribution of over \$17 million in sales tax monies that had accumulated from previous years.

School districts continued to use Proposition 301 monies primarily to increase the salaries of certified teachers and other employees they have defined as eligible, such as librarians, counselors, and speech pathologists. These eligible employees received amounts ranging from \$407 to \$8,426. Since Proposition 301's inception, the state-wide average teacher salary has increased by \$5,791, with the largest portion of this increase, \$3,872, occurring in fiscal year 2006. While some of this is attributable to the increase in Proposition 301 monies, the Arizona Department of Education (ADE) also revised the way it collects average teacher salary data from districts, making prior years' averages not fully comparable to the current year. Further, one joint technological education district has accumulated approximately \$262,000 in Proposition 301 base and performance pay monies that it cannot spend because it does not employ teachers. Although the district has been seeking guidance from ADE, this issue has yet to be addressed.

While over 93 percent of Proposition 301 monies were used for teacher salaries and benefits, some monies were spent for unallowable purposes. Specifically, statute

requires menu option monies for AIMS intervention, class size reduction, and dropout prevention to be spent only on instruction. However, four districts spent approximately \$209,000 for these three programs on plant, transportation, and administration expenditures. In addition, while statute prohibits districts from using Proposition 301 monies to supplant, or replace, existing teacher compensation monies, a review of three basic indicators—Proposition 301 monies paid to teachers, teachers' average years of experience, and average teacher salaries—suggests that supplanting may have occurred in as many as 36 districts.

## Appendix (see pages a-1 through a-227)

The Appendix provides alphabetically organized one-page information sheets on individual school districts. Each page summarizes the district's classroom and nonclassroom spending, its reported Proposition 301 program results, and other descriptive and comparative data.

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# INTRODUCTION & BACKGROUND

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The Office of the Auditor General has, for the sixth consecutive year, conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom. This analysis was conducted pursuant to Arizona Revised Statutes §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 also summarizes how school districts have reported using their Proposition 301 funding. 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. School districts may use this funding only for specified purposes, primarily increasing teacher pay.

## Classroom dollars: definition and benchmarks

The definition of classroom dollars used in this report is based on the definition developed by the U.S. Department of Education's National Center for Education Statistics (NCES) for "instruction." This definition is described in Table 1 (see page 2) and includes current expenditures for classroom personnel, instructional supplies, instructional aids, certain tuition payments, field trips, athletics, and co-curricular activities. NCES has collected school district revenue and expenditure data from all states and published comparative statistics about dollars spent on instruction for more than a decade. Because this definition has been applied across the country for a number of years, it provides a basis for comparing Arizona's results with other states, with the national average, and with Arizona's past performance.

NCES compiles its analysis using expenditure data provided by all states, including Arizona. This information is currently available only through fiscal year 2004. Unless otherwise noted, the expenditure data for Arizona in this report is based on our own compilations using districts' Annual Financial Reports and accounting data, which is available through fiscal year 2006.

Table 1: Classroom Dollars Definition

### How is a district's "Classroom Dollars" percentage determined?

The amount a district spends for classroom purposes is compared to the total amount a district spends for its day-to-day operations, or total current expenditures. A district's total current expenditures includes both classroom and nonclassroom expenses as described 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, clerical, and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and information technology services

**Plant operation 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 staff support services**—Librarians, teacher training, and curriculum development

**Student support services**—Counselors, audiologists, speech pathologists, and nurses

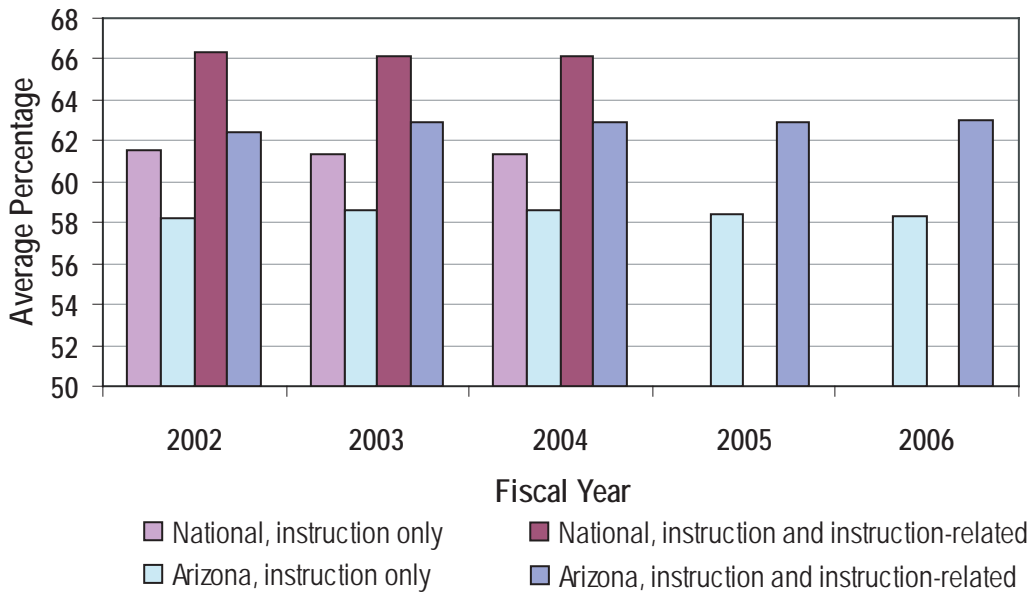
### Are any expenditures excluded from the calculation?

Yes, the calculation excludes 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.

Source: Auditor General staff analysis of the National Center for Education Statistics' *National Public Education Financial Survey Instruction Booklet*.

This year, for the first time, NCES reported a combined category of instruction and instruction-related expenditures when reporting on fiscal year 2004 data.<sup>1</sup> This new category combines classroom dollars, as described in Table 1 (see page 2), and instructional support services, which include expenditures such as librarians, teacher training, and curriculum development. However, NCES still collects and makes available the more-detailed data with instruction separated from instruction-related expenditures. For comparative purposes, Figure 1 shows Arizona and national classroom dollar percentages for both the previously reported instruction-only expenditures and the new combined category of instruction and instruction-related expenditures. As can be seen in Figure 1, using either definition, Arizona consistently lags behind the national average by 3 to 4 percentage points. This report uses the instruction-only definition of classroom dollars because of this consistent relationship and because it more accurately reflects expenditures directly connected to educating students.

Figure 1: National and Arizona Average Percentages Spent on Instruction and Instruction plus Instruction-related Expenditures  
Fiscal Years 2002 through 2006



Source: Auditor General staff analysis of National Center for Education Statistics' (NCES) annual report, *Digest of Education Statistics* and NCES' Common Core of Data [<http://nces.ed.gov/ccd/>] for national percentages and school districts' *Annual Financial Reports* and summary accounting data for Arizona percentages.

<sup>1</sup> National Center for Education Statistics *Current Expenditures for Public Elementary and Secondary Education: School Year 2003-2004*, Washington, D.C., July 2006.

## Scope and methodology

To analyze the most current expenditure and budget data available for Arizona's districts, auditors obtained fiscal year 2006 district Annual Financial Reports (AFRs) and budgets from the Arizona Department of Education. In addition, all of the State's 239 school districts provided auditors with fiscal year 2006 summary accounting data, and 223 school districts submitted summaries of their Classroom Site Fund expenditures and program results. This report presents analyses of available data; therefore, the information used to prepare this report was not subjected to all the tests and confirmations that would be performed during an audit. However, the information in this report was subject to certain quality control procedures to ensure its reasonableness. For example, the AFRs, budgets, and summary accounting data were not audited to the underlying district records. Instead, auditors performed analytical procedures using the financial data and Classroom Site Fund narratives of program results and interviewed school district officials about significant anomalies or variances. Auditors corrected data errors that this review identified prior to calculating classroom dollar percentages and analyzing Classroom Site Fund expenditures.

Other information related to the analysis was obtained from the Arizona Department of Education, such as school district staffing levels and average daily membership counts. In addition, to align with NCES' most current available expenditure data, which was for fiscal year 2004, and the 5-year average for fiscal years 2000 through 2004, auditors also obtained national data at both the state- and district-level for these same fiscal years. State-level data included staffing and enrollment data from NCES and poverty rates and population estimates from the U.S. Census Bureau. Fiscal year 2000 population estimates were also obtained to determine state population growth. National district-level data included expenditure, staffing, and enrollment data from NCES. Auditors analyzed district-level data for approximately 15,000 public school districts, excluding special purpose districts such as regional service agencies and charter schools that are not sponsored by public school districts. These other types of data were also compared against published reports for reasonableness and accuracy, but the various source records were not audited.

Using Arizona districts' data and national data, auditors analyzed both individual and grouped districts' classroom dollar percentages and characteristics, such as district size. After using statistical and correlation analyses to identify factors that were significantly associated with individual district percentages, auditors analyzed these factors for their relationship to grouped district percentages. In addition, auditors examined the individual districts' classroom dollar percentages with and without the addition of Classroom Site Fund expenditures to determine the effect of Proposition 301.

Auditors made certain adjustments to the Arizona district-level data that affected the average daily membership (ADM) counts for districts that offered all-day kindergarten at no charge to parents. This adjustment 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 ten 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.

All of the State's 239 districts were included in the calculation of the State's classroom dollar percentage. However, some districts were excluded from further analyses of classroom dollars and Proposition 301 monies. The analysis of the percentage of dollars spent in the classroom for Arizona districts was based on 156 districts, and the analysis of Proposition 301 information was based on 223 districts. The specific exclusions and reasons for exclusions include:

- 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. These districts are listed in Table 2 on page 6.
- When analyzing factors that affect the percentages, accommodation districts and joint technological education districts were also excluded. These two district types are unique in operation and few in number, and would, thereby, distort the analysis of factors generally affecting other district types. These districts are listed separately in Table 9 on page 29.
- The 52 smallest districts, those with fewer than 200 students, were also excluded from our analysis of factors affecting the percentages. These districts' operations and spending patterns are highly variable and do not contribute to identifying state-wide trends and norms. These districts are listed in Table 9 on pages 28 and 29 as "Very Small."
- Only 223 districts received Proposition 301 monies for fiscal year 2006. The 16 districts not receiving fiscal year 2006 Proposition 301 monies included the 10 transporting districts and 6 of the 10 joint technological education districts. These districts are listed in Table 2 on page 6.

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.



Table 2: Districts Excluded from Analysis as Noted  
Fiscal Year 2006

| Districts by Type   | Excluded from Analysis of           |                 |
|---|-------------------------------------|-----------------|
|   | State-wide Classroom Dollar Factors | Proposition 301 |
| <b>Accommodation Districts (11)</b>                               | ●                                   |                 |
| Listed on page 29   |                                     |                 |
| <b>Joint Technological Education Districts (10)</b>               |                                     |                 |
| Central Arizona Valley Institute of Technology                    | ●                                   |                 |
| Cobre Valley Institute of Technology                              | ●                                   | ●               |
| Cochise Technology District                                       | ●                                   | ●               |
| Coconino Association for Vocation, Industry, and Technology       | ●                                   | ●               |
| East Valley Institute of Technology                               | ●                                   |                 |
| Gila Institute for Technology                                     | ●                                   |                 |
| Northeast Arizona Technological Institute of Vocational Education | ●                                   | ●               |
| Northern Arizona Vocational Institute of Technology               | ●                                   |                 |
| Valley Academy for Career and Technology Education                | ●                                   | ●               |
| Western Maricopa Education Center                                 | ●                                   | ●               |
| <b>Very Small Districts (52)</b>                                  | ●                                   |                 |
| Listed on pages 28 and 29   |                                     |                 |
| <b>Transporting Districts (10)</b>                                |                                     |                 |
| Champie Elementary  | ●                                   | ●               |
| Chevelon Butte Elementary   | ●                                   | ●               |
| Eagle Elementary  | ●                                   | ●               |
| Empire Elementary   | ●                                   | ●               |
| Forrest Elementary  | ●                                   | ●               |
| Klondyke Elementary   | ●                                   | ●               |
| Redington Elementary  | ●                                   | ●               |
| Rucker Elementary   | ●                                   | ●               |
| Walnut Grove Elementary   | ●                                   | ●               |
| Williamson Valley Elementary                                      | ●                                   | ●               |

Source: Auditor General staff analysis of fiscal year 2006 summary accounting data provided by individual school districts, School District Annual Financial Reports, school district type, and Proposition 301 revenue distribution data provided by the Arizona Department of Education.

# CHAPTER 1

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## Dollars in the classroom

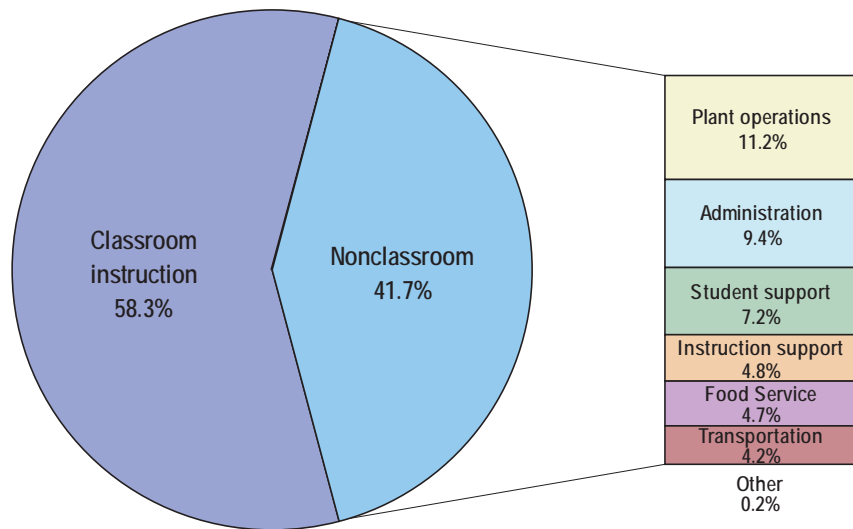
In fiscal year 2006, Arizona's state-wide percentage of dollars spent in the classroom was 58.3 percent, which was lower than the previous 3 years and more than 3 percentage points below the national average. With the infusion over the past several years of significant state-provided resources largely directed to the classroom, the State's classroom dollar percentage could have been higher.

Compared to national averages, Arizona school districts spent a greater percentage of their resources for plant operations, food service, and student support services and spent a lower percentage for administration. Within Arizona, over the past 5 years, the percentage of total spending for student support services, instructional support services, and transportation has consistently increased, while the percentage for administration and plant operations has consistently decreased. Arizona's low classroom dollar percentage as compared to other states may relate to the combined effect of several factors, including higher growth and poverty rates, and lower per-pupil spending. Within Arizona, larger district size is associated with higher classroom dollar percentages, while higher plant operations, administration, transportation, and student support costs are the costs most closely associated with lower classroom dollar percentages. Lastly, within Arizona, higher per-pupil spending does not equate to higher classroom dollar percentages.

## Despite increases in funding, Arizona's classroom dollar percentage is lower than the previous 3 years and the national average

As shown in Figure 2 (see page 8), in fiscal year 2006, Arizona school districts cumulatively spent 58.3 cents of each dollar in their classrooms, which is slightly less than the previous 3 years. Districts spent slightly higher percentages on student transportation, student support services, and instructional support services than in previous years, and slightly less on plant operations and administration.

Figure 2: Current Expenditures by Functional Area  
Fiscal Year 2006



Source: Auditor General staff analysis of fiscal year 2006 summary accounting data provided by individual school districts.

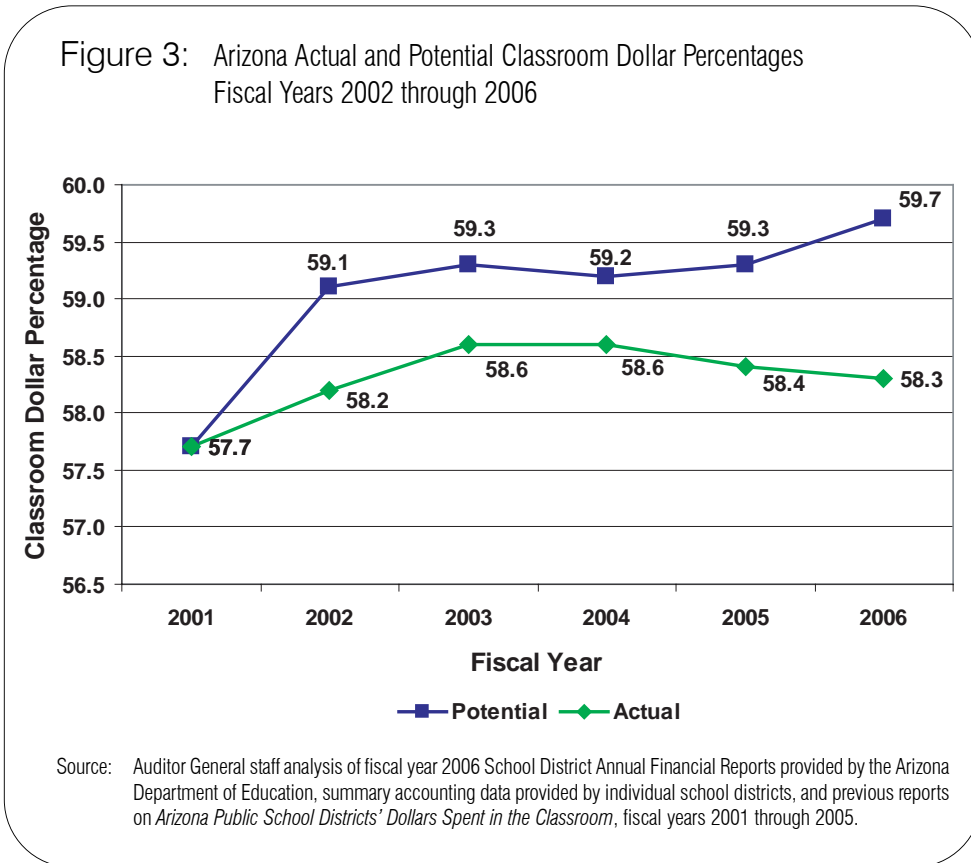
Based on data available from the U.S. Department of Education's National Center for Education Statistics (NCES), the most recent 5-year national average for spending on instruction is 61.5 percent.<sup>1</sup> Further, the national average has remained between 61 and 62 percent for more than 10 years. In this report, auditors use the 5-year national averages for the various functions to smooth the effects of minor changes from year to year.

### New monies have not increased classroom spending percentage—

Beginning in fiscal year 2002, Proposition 301 provided new monies for Arizona school districts. As described more specifically in Chapter 2, these monies are largely restricted to being used for classroom purposes, such as increasing teacher pay. In fiscal year 2001, before Proposition 301 monies were available, the state-wide classroom dollar percentage for Arizona districts was 57.7 percent. With the first infusion of \$251 million of Proposition 301 monies in fiscal year 2002, state-wide classroom spending increased to 58.2 percent. As shown in Table 3 (see page 10), besides Proposition 301 monies, other resources largely directed toward classroom spending include Indian gaming revenues, which began in fiscal year 2004. However, after reaching a peak of 58.6 percent in fiscal years 2003 and 2004, the State's classroom dollar percentage has dropped in each of the past 2 years.

<sup>1</sup> The most recent available 5 years of data is composed of fiscal years 2000 through 2004. The national average for fiscal year 2004 instruction spending is also 61.5 percent.

As shown in Figure 3, if districts had spent their fiscal year 2006 non-Proposition 301 monies in the same proportions as they did in fiscal year 2001, the additional \$341 million in Proposition 301 monies and \$21 million in Indian gaming revenues would have raised the state-wide average to 59.7 percent. However, since fiscal year 2004, most districts have spent proportionately less of their other monies in the classroom, thereby widening the gap between the State's "potential" and "actual" classroom dollar percentages. Specifically, for fiscal year 2006, Arizona school districts' total current expenditures increased by \$533 million over the prior year, but only \$304 million, or 57 percent, of these expenditures were used for classroom purposes.



In fact, after a 5-year total increase of approximately \$1.3 billion of Proposition 301 monies and increases in other funding such as Indian gaming revenues, shown yearly in Table 3 (see page 10), the state classroom dollar percentage has increased by only 0.6 of a percentage point and still lags about 3 points behind the national average.

**Table 3: Classroom Dollar Percentage, Total Current Expenditures, and Certain Revenues  
Fiscal Years 2001 through 2006  
In Millions  
(Unaudited)**

|  | 2001        | 2002          | 2003          | 2004          | 2005          | 2006          |
|--|-------------|---------------|---------------|---------------|---------------|---------------|
| <b>Classroom Dollar percentage</b>                       | 57.7%       | 58.2%         | 58.6%         | 58.6%         | 58.4%         | 58.3%         |
| <b>Total Current Expenditures<sup>1</sup></b>            | \$3,921     | \$4,707       | \$5,073       | \$5,403       | \$5,762       | \$6,295       |
| <b>Additional Classroom-Related Revenues:</b>            |             |               |               |               |               |               |
| Classroom Site Fund<br>(Proposition 301 Monies)          | \$ 0        | \$ 251        | \$ 236        | \$ 232        | \$ 249        | \$ 341        |
| Instructional Improvement Fund<br>(Indian gaming monies) | \$ 0        | \$ 0          | \$ 0          | \$ 9          | \$ 18         | \$ 21         |
| <b>Total</b>   | <b>\$ 0</b> | <b>\$ 251</b> | <b>\$ 236</b> | <b>\$ 241</b> | <b>\$ 267</b> | <b>\$ 362</b> |

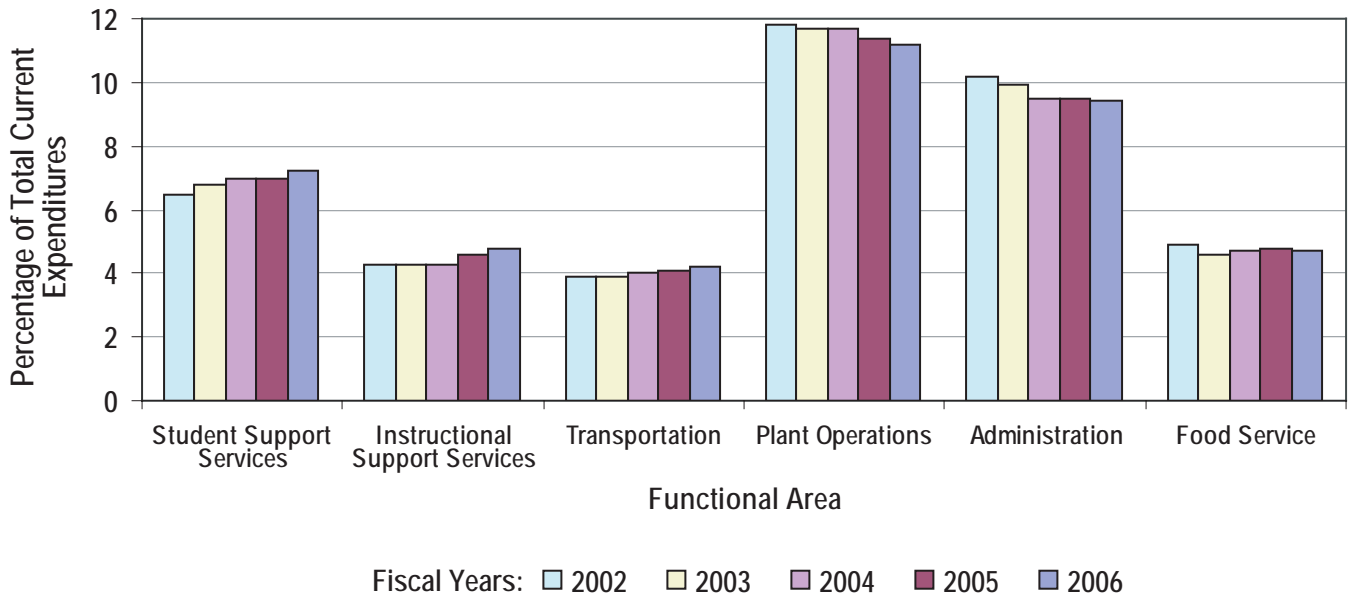
<sup>1</sup> Total Current Expenditures are those incurred for school districts' day-to-day operations. They exclude costs associated with repaying debt, capital outlay (such as purchasing land, buildings, and equipment), and programs such as adult education and community service that are outside the scope of preschool through grade 12 education.

Source: Auditor General staff analysis of fiscal year 2006 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and previous reports on *Arizona Public School Districts' Dollars Spent in the Classroom*, from fiscal years 2001 through 2005.

On average, Arizona school districts have consistently increased spending levels in some noninstructional areas while decreasing others

Arizona's declining classroom dollar percentage corresponds with consistent changes in certain noninstructional areas. As shown in Figure 4 (see page 11), over the past 5 years, school districts have, on average, consistently increased spending levels on student support services, instructional support services, and student transportation, and decreased them for plant operations and administration. Compared to fiscal year 2002, student support services, instructional support services, and student transportation now make up an additional 1.5 percentage points of total current spending, while plant operations and administration are now 1.4 percentage points less. In dollars, spending increases occurred primarily for salaries and benefits in each area. But on a percentage basis, purchased services increased the most for student support services and instructional support services, while supplies such as fuel costs represented the largest increase for transportation. The primary cost savings in plant operations and administration occurred in supplies, which includes energy for plant operations and other miscellaneous spending.

Figure 4: Selected Noninstructional Expenditures, by Functional Area  
Fiscal Years 2002 through 2006



Source: Auditor General staff analysis of fiscal years 2002 through 2006 summary accounting data provided by individual school districts.

## Arizona’s lower percentage of classroom dollars may be related to the combined effect of several factors

Using the available NCES state- and district-level data, auditors examined several factors that describe Arizona in the national context and might help explain the State’s relatively low classroom dollar percentage.<sup>1</sup> These factors, which all apply to Arizona, include:

- Low per-pupil spending
- Below-average district size
- High population growth
- High student-to-teacher ratios, another potential sign of growth
- High poverty rates, generally considered an indicator of at-risk students
- High percentages of students eligible for free and reduced-price meals, a potential indicator of higher food service costs<sup>2</sup>

<sup>1</sup> NCES collects data on all districts nation-wide, but auditors excluded special purpose districts, such as regional service agencies and charter schools, and analyzed data for approximately 15,000 public school districts in the U.S.

<sup>2</sup> As reported in the Auditor General’s 2005 special study, *Arizona’s Participation in the National School Lunch Program*, a greater proportion of Arizona students who are eligible for free or reduced-price meals typically eat school lunches.

Although these six factors do not appear to be individually associated with low classroom dollar percentages, new analysis this year shows that they may have a relationship when combined. Table 4 shows the prevalence of these factors in two sets of states: Arizona and the ten other states with the lowest classroom dollar percentages, and the ten states with the highest classroom dollar percentages. As the table shows, only Arizona ranked among the lowest ten states in all six categories, but the ten states with the lowest classroom dollar percentages tend to have more of these six factors than do the ten states with the highest classroom dollar percentages. Six of the states with a low classroom dollar percentage had

**Table 4: Comparison of Factor Values Relative to National Averages of the Low- and High-Classroom Dollar Percentage States 5-Year Averages<sup>1</sup>**

| STATE   | Classroom Dollar Percentage | Below Average Per-pupil Spending | Below Average Median District Size | Above Average Growth | Above Average Pupil/Teacher Ratio | Above Average Poverty | Above Average Free- and Reduced-Price Eligibility | Count of State's Factors |
|---|-----------------------------|----------------------------------|------------------------------------|----------------------|-----------------------------------|-----------------------|---|--------------------------|
| Arizona   | 58.4%                       | ●                                | ●                                  | ●                    | ●                                 | ●                     | ●   | 6                        |
| <b>Ten Lowest Classroom Dollar Percentage States</b>  |                             |                                  |                                    |                      |                                   |                       |   |                          |
| New Jersey  | 59.1                        |                                  |                                    |                      |                                   |                       |   | 0                        |
| Oregon  | 59.1                        | ●                                | ●                                  | ●                    | ●                                 |                       |   | 4                        |
| Florida   | 58.7                        | ●                                |                                    | ●                    | ●                                 | ●                     | ●   | 5                        |
| Kansas  | 58.6                        | ●                                | ●                                  |                      |                                   |                       |   | 2                        |
| Ohio  | 58.0                        |                                  |                                    |                      |                                   |                       |   | 0                        |
| Alaska  | 57.6                        |                                  | ●                                  | ●                    | ●                                 |                       |   | 3                        |
| Michigan  | 57.6                        |                                  |                                    |                      | ●                                 |                       |   | 1                        |
| Oklahoma  | 57.6                        | ●                                | ●                                  |                      |                                   | ●                     | ●   | 4                        |
| Colorado  | 57.5                        | ●                                | ●                                  | ●                    | ●                                 |                       |   | 4                        |
| New Mexico  | 55.9                        | ●                                | ●                                  | ●                    |                                   | ●                     | ●   | 5                        |
| <b>Ten Highest Classroom Dollar Percentage States</b> |                             |                                  |                                    |                      |                                   |                       |   |                          |
| New York  | 68.3                        |                                  |                                    |                      |                                   | ●                     |   | 1                        |
| Maine   | 66.9                        |                                  | ●                                  |                      |                                   |                       |   | 1                        |
| New Hampshire   | 65.0                        |                                  | ●                                  | ●                    |                                   |                       |   | 2                        |
| Massachusetts   | 64.9                        |                                  |                                    |                      |                                   |                       |   | 0                        |
| Rhode Island  | 64.8                        |                                  |                                    |                      |                                   |                       |   | 0                        |
| Tennessee   | 64.6                        | ●                                |                                    |                      |                                   | ●                     |   | 2                        |
| Utah  | 64.6                        | ●                                |                                    | ●                    | ●                                 |                       |   | 3                        |
| Vermont   | 64.4                        |                                  | ●                                  |                      |                                   |                       |   | 1                        |
| Connecticut   | 63.8                        |                                  |                                    |                      |                                   |                       |   | 0                        |
| Minnesota   | 63.6                        |                                  | ●                                  |                      |                                   |                       |   | 1                        |

<sup>1</sup> Arizona's 5-year average classroom dollar percentage is based on fiscal years 2002 through 2006. For comparison purposes, Arizona's other factor values and all of the other states' factor values are based on fiscal years 2000 through 2004.

Source: Auditor General staff analysis of fiscal years 2002 through 2006 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts; fiscal years 2000 through 2004 NCES Common Core of Data [<http://nces.ed.gov/ccd/>]; U.S. Census Bureau, "Annual Estimates of the Population for the United States, and for Puerto Rico: April 1, 2000 to July 1, 2004"; and U.S. Census Bureau, "Small Area Income and Poverty Estimates," for fiscal years 2000 through 2004.

three or more of these factors. In contrast, only one of the states with a high classroom dollar percentage had three such factors, and seven of these states had one or no factor.

While the combination of so many of these factors may provide some potential explanation for Arizona’s low classroom dollar percentage, auditors found that none of these factors, when taken alone, is consistently associated with low classroom dollar percentages. For each factor, auditors established a peer group of states similar to Arizona. For example, for Arizona’s 5-year average per-pupil spending of \$6,702, auditors established a peer group of states with a 5-year average spending level of \$6,796 (see Table 5). In each case, when the peer group’s classroom spending was compared with Arizona’s, the peer group’s classroom percentage was higher—generally by 2 or more percentage points.

**Table 5: Average Classroom Dollar Percentages and Factor Values for U.S., Arizona, and State Peer Groups 5-Year Averages<sup>1</sup>**

| Factors                                   | 5-year Average Factor Value             |                         |         |         |
|---|---|-------------------------|---------|---------|
|   | Peer Group Classroom Dollars Percentage | Peer Group <sup>3</sup> | Arizona | U.S.    |
| Per Pupil Spending <sup>2</sup>           | 60.7%                                   | \$6,796                 | \$6,702 | \$8,576 |
| District Size                             | 60.2                                    | 928                     | 1,005   | 1,072   |
| Population Growth                         | 60.3                                    | 12.0%                   | 11.2%   | 4.1%    |
| Student/Teacher Ratio                     | 59.4                                    | 18.0                    | 18.0    | 15.9    |
| Poverty Rate                              | 61.4                                    | 18.8                    | 18.9%   | 15.4%   |
| Free- and Reduced-price Lunch Eligibility | 60.5                                    | 48.5%                   | 49.2%   | 37.8%   |
| <b>5-year U.S. Average</b>                | <b>61.5%</b>                            |                         |         |         |
| <b>5-year Arizona Average</b>             | <b>58.4%</b>                            |                         |         |         |
| <b>2006 Arizona Average</b>               | <b>58.3%</b>                            |                         |         |         |

<sup>1</sup> Arizona's 5-year average classroom dollar percentage is based on fiscal years 2002 through 2006. For comparison purposes, Arizona's other factor values and all of the other states' classroom dollar percentages and factor values are based on fiscal years 2000 through 2004.

<sup>2</sup> Auditors converted current expenditures for each fiscal year into 2006 dollars before calculating the 5-year average for each state.

<sup>3</sup> These peer states were developed using fiscal years 2000 through 2004 data and analysis of standard deviations:  
*Per Pupil Spending*—South Dakota, Florida, Alabama, Arkansas, Nevada, Oklahoma, Tennessee, and Idaho.  
*District Size*—Arkansas, New Mexico, Wyoming, Texas, Oregon, Illinois, Indiana, Minnesota, Wisconsin, Washington, and New Jersey.  
*Population Growth*—Florida and Nevada.  
*Student/Teacher Ratio*—Colorado, Idaho, Michigan, Florida, and Nevada.  
*Poverty Rate*—California, Oklahoma, South Carolina, Kentucky, New York, Texas, and Alabama.  
*Free- and Reduced-price Lunch Eligibility*—California, Arkansas, Alabama, South Carolina, Oklahoma, West Virginia, and Kentucky.

Source: Auditor General staff analysis of fiscal years 2002 through 2006 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts; fiscal years 2000 through 2004 NCES Common Core of Data [<http://nces.ed.gov/ccd/>]; U.S. Census Bureau, "Annual Estimates of the Population for the United States and States, and for Puerto Rico: April 1, 2000 to July 1, 2004"; and U.S. Census Bureau, "Small Area Income and Poverty Estimates," for fiscal years 2000 through 2004.



## Arizona exceeds national percentages for plant, food service, and student support, but spends less on administration

State-wide, Arizona school districts are spending about 42 percent of their current dollars for nonclassroom purposes. As shown in Table 6, compared with the national average, Arizona districts spend a larger portion of their current dollars on plant operation and maintenance, student support services, and food service, and spend less on administration. The national data used for the analysis is the 5-year average for fiscal years 2000 through 2004, the most recent available from NCES summarizing functional expenditures. For comparison purposes, Arizona's most recent 5-year average, for fiscal years 2002 through 2006, is shown in addition to fiscal year 2006 data.<sup>1</sup>

**Table 6:** Comparison of Arizona Districts' Spending To National Average, by Functional Area  
5-Year Averages and Fiscal Year 2006<sup>1</sup>

| Functional Area                 | 5-year average <sup>1</sup> |         | Arizona 2006 |
|---------------------------------|-----------------------------|---------|--------------|
|                                 | U.S.                        | Arizona |              |
| Classroom Dollars               | 61.5%                       | 58.4%   | 58.3%        |
| Plant Operation and Maintenance | 9.6                         | 11.5    | 11.2         |
| Administration                  | 11.0                        | 9.7     | 9.4          |
| Student Support Services        | 5.1                         | 6.9     | 7.2          |
| Instructional Support Services  | 4.7                         | 4.4     | 4.8          |
| Food Service                    | 3.9                         | 4.7     | 4.7          |
| Transportation                  | 4.0                         | 4.0     | 4.2          |
| Other Noninstructional Services | 0.2                         | 0.2     | 0.2          |

<sup>1</sup> Five-year averages are based on the most recent data available—fiscal years 2000 through 2004 for national percentages and fiscal years 2002 through 2006 for Arizona's percentages.

Source: Auditor General staff analysis of fiscal years 2002 through 2006 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts for Arizona percentages and fiscal years 2000 through 2004 NCES Common Core of Data [<http://nces.ed.gov/ccd/bat/>] for national percentages.

**Plant operation and maintenance costs**—Although lower than prior years, Arizona school districts continued to allocate a significantly larger percentage of their dollars to plant operation and maintenance costs than the national average. Plant costs include expenditures for the care and upkeep of buildings, grounds, and equipment; utilities; and security. For fiscal year 2006, this category accounted

<sup>1</sup> National percentages at the function level have been relatively stable from year to year, thus allowing for valid comparison despite different 5-year time periods for the national and Arizona data.

for 11.2 percent of current expenditures in Arizona school districts, which is 1.6 percentage points higher than the national average.

Arizona's high plant cost percentage may be related to its higher-than-average percentage spent on supplies, which includes energy costs. Arizona's energy and other supply costs account for most of the difference between the national and state percentages.

**Student support services**—Arizona school districts allocated a significantly larger percentage of their dollars to student support services than the national average. This category includes costs such as counselors and health-related services. Student support services accounted for 7.2 percent of Arizona school districts' fiscal year 2006 current expenditures, 2.1 percentage points higher than the national average. The proportion spent on student support service salaries accounted for more than half of this difference. According to the data collected as part of NCES' Schools and Staffing Surveys for fiscal years 2000 through 2004, Arizona averages 97 students for each full-time equivalent (FTE) student support service employee, while the national average is 172 students. Arizona's districts may need additional student support staff to address its greater percentage of at-risk students. According to census data for the same time period, on average, 18.9 percent of Arizona's school-age children live in poverty, which is 3.5 percentage points higher than the national average of 15.4 percent.

**Food service**—Arizona school districts also spent a larger percentage of their dollars for food service costs than the national average. Food service includes expenditures for preparing, delivering, and serving regular and incidental meals and snacks in connection with school activities. For fiscal year 2006, Arizona school districts spent, on average, 4.7 percent on food service, while the national average was 3.9 percent. Arizona's higher food service percentage may be related to its higher-than-average eligibility for the National School Lunch Program.<sup>1</sup> As previously noted, a greater proportion of Arizona students who are eligible for free or reduced-price meals typically eat school lunches. Serving more meals per pupil would increase the proportion being spent on food service costs. In fact, the seven states with similarly high percentages of students eligible for free or reduced-price meals spent 5.4 percent, on average, for food service, which is higher than Arizona's average.

**Administrative costs**—One area in which Arizona school districts, on a state-wide basis, spent a smaller percentage than the national average is administration. Administrative costs are those associated with a district's governing board, superintendent, and school principal offices, and its business and central support services. In fiscal year 2006, Arizona districts spent only 9.4 percent of their dollars on administration while the national average was 11 percent. Arizona's lower proportions spent on administrative salaries and related benefits, and purchased services each accounted for approximately one third of this 1.6-percentage-points

<sup>1</sup> As reported in the Auditor General's 2005 special study, *Arizona's Participation in the National School Lunch Program*, Arizona's free or reduced-price eligibility rate of 52 percent ranked it among the top five states for eligibility.

difference. The lower percentage spent on administration also may be due to Arizona administrators serving more students. Arizona administrators serve 12 percent more students for each administrative full-time equivalent (FTE) employee than the national average. Arizona's proportion of administrative costs between district- and school-level was not significantly different than the national average.

## More than half of districts' classroom dollar percentages declined, but the state average is most affected by 11 very large districts

During fiscal year 2006, as the slightly lower state-wide average reflects, more than half of Arizona school districts spent a smaller percentage in the classroom than they did the previous year. While most districts remained within 5 percentage points of the state average, most declining percentage districts were small districts, which are more affected by expenditure shifts. The state-wide classroom dollar percentage, however, is more significantly affected by 11 very large districts as their expenditures account for 43 percent of Arizona's school districts' total current spending.

**Most Arizona districts close to state average**—For the 208 elementary, union high, and unified districts for which a fiscal year 2006 percentage was calculated, individual district classroom dollar percentages ranged from 28.6 to 84.5 percent. Nearly two-thirds, or 135 districts, were within 5 percentage points of

the state average, and more than one-quarter, or 59 districts, were within 2 percentage points. Table 7 groups the districts in comparison to the state-wide average.

**Table 7: Districts Grouped by Percentage of Dollars Spent in the Classroom Fiscal Year 2006**

| Compared to State Average | Percentage Range | Number of Districts |
|---------------------------|------------------|---------------------|
| More than 5% above        | > 63.3%          | 10                  |
| 2.1% to 5% above          | 60.4-63.3%       | 27                  |
| 2% above to 2% below      | 56.3-60.3%       | 59                  |
| 2.1 to 5% below           | 53.3-56.2%       | 49                  |
| 5.1 to 10% below          | 48.3-53.2%       | 38                  |
| More than 10% below       | < 48.3%          | 25                  |

Source: Auditor General staff analysis of fiscal year 2006 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Many of the districts furthest from the average are very small districts (fewer than 200 students) or special purpose districts. The very small districts are among the highest (84.5 percent) and lowest (28.6 percent) classroom dollar percentages in the State and, as a group, they tend to be skewed to one or the other of these extremes. This is often the case because their unique circumstances have a marked effect

on nonclassroom expenditures. For example, a very small district may have very low administrative costs because the county school superintendent provides most

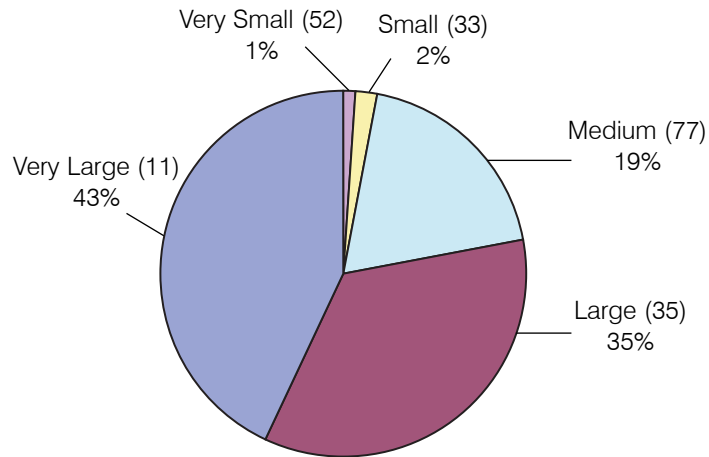
of its administrative services, or it may not operate a food service program. On the other hand, very small districts that have their own administrative staff and/or operate a food service program have exceptionally high per-pupil administrative or food service costs because they have very few students over which to spread the costs. As a result, administrative costs for these very small districts ranged between \$147 and \$15,785 per pupil, and their food service costs ranged between \$0 and \$2,627 per pupil. Special purpose districts, such as accommodation districts and joint technological education districts, many of which do not operate their own campuses, also have a wide range of classroom dollar percentages (from 0 percent to 64.3 percent). These very small and special purpose districts are included in calculating the state-wide classroom dollar percentage, but are excluded from our further analysis.

Over half of the districts analyzed spent a smaller percentage of dollars in the classroom—Although many districts continued to spend a similar percentage of dollars in the classroom as they did the previous fiscal year, 87 districts (56 percent of those analyzed) had lower classroom dollar percentages in fiscal year 2006. Districts with declining classroom dollar percentages typically increased their administrative costs and student support services, while districts increasing their classroom dollar percentages typically spent a smaller proportion on plant costs and administrative costs. The districts that changed the most were, on average, much smaller than districts with more stable classroom dollar percentages. Relatively small changes in yearly expenditures and one-time costs can have a significant impact on smaller districts' classroom dollar percentages.

A small district in Yavapai County spent 12 percentage points less in the classroom primarily because of increased administrative costs related to a board recall election, a lawsuit, and a buy-out of the superintendent's contract.

Eleven districts significantly impact State's classroom dollar percentage—As shown in Figure 5 (see page 18), the 11 very large districts, those with more than 20,000 students, account for 43 percent of Arizona school districts' total current expenditures. Therefore, changes in this group's classroom dollar percentage significantly impact the state-wide classroom dollar percentage. For example, between fiscal years 2002 and 2003, the very large group's combined classroom dollar percentage increased by 0.4 percent, which was identical to the increase in the state-wide percentage over the same period. Likewise, between fiscal years 2005 and 2006, the very large group's classroom dollar percentage decreased 0.1 percent, which was identical to the State's classroom dollar percentage decrease. Corresponding changes in this group's key noninstructional percentages, such as decreases in plant operations and administration, and increases in transportation, also mirrored state changes between fiscal years 2005 and 2006, on average. Even individual districts in this group can affect the state-wide classroom dollar percentage. For example, excluding just the highest or lowest classroom dollar percentage district within this group from the state-wide classroom dollar percentage calculation would lower or raise the state-wide percentage by 0.2 percentage points.

Figure 5: Percentage of State-wide Expenditures of School Districts Grouped by Size (with Number of Districts) Fiscal Year 2006



Source: Auditor General staff analysis of fiscal year 2006 summary accounting data provided by individual school districts.

## Factors associated with higher or lower classroom spending in Arizona

Within Arizona, certain factors were associated with higher or lower classroom spending percentages. One factor, the number of students in a district, was positively related to dollars being spent in the classroom. That is, as district size increases, so does the classroom dollar percentage, on average. Conversely, cost factors identified in previous fiscal years continue to be associated with lower percentages. In fiscal year 2006, the factors with the strongest negative relationships are plant operation and maintenance, administration, student support services, and transportation costs. As these costs increase, the percentage of dollars spent in the classroom decreases, on average.

**Larger district size associated with higher classroom dollar percentages**—Generally, the more students a district has, the higher the percentage it spends in the classroom. As shown in Table 8 (see page 19) and as found in previous fiscal years' analyses, the classroom dollar percentage increases as the number of students in a district increases.

This increase in classroom dollar percentage may occur because larger districts can spread fixed noninstructional costs over more students, leaving additional

dollars to spend in the classroom. For example, both large and small districts generally provide facilities such as gymnasiums for students. The large districts can spread the costs associated with operating these facilities over more students. In fact, small districts maintain about twice the square footage per student as large and very large districts, on average. In each of the following sections on noninstructional cost groups, the high-cost districts were typically small.

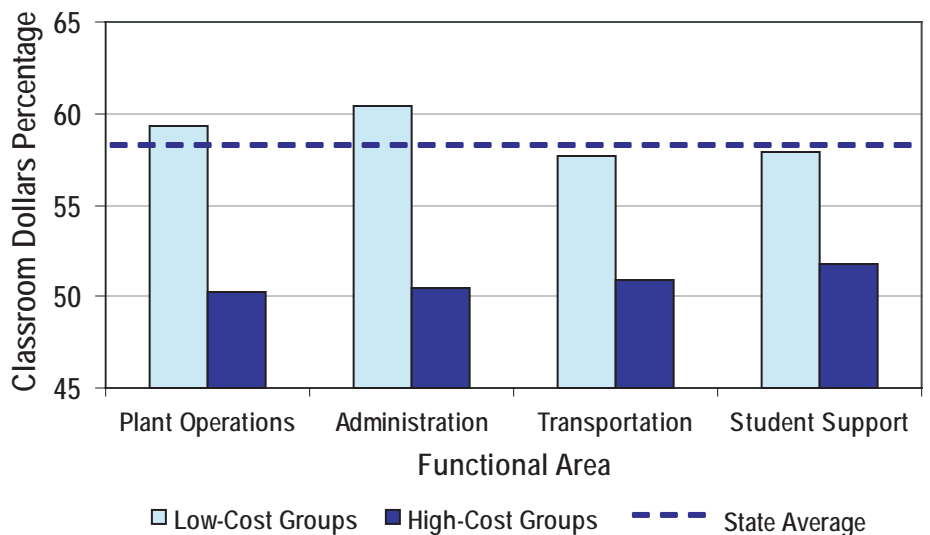
**Table 8: Average Classroom Dollar Percentages of Districts Grouped by Size Fiscal Year 2006**

| District Size | Number of Districts | Number of Students | Average Classroom Dollar Percentage |
|---------------|---------------------|--------------------|-------------------------------------|
| Very Large    | 11                  | 20,000 or more     | 60.8%                               |
| Large         | 35                  | 5,000-19,999       | 58.1                                |
| Medium        | 77                  | 600-4,999          | 55.0                                |
| Small         | 33                  | 200-599            | 53.7                                |
| Very Small    | 52                  | Less than 200      | 54.0                                |

Source: Auditor General staff analysis of fiscal year 2006 School District Annual Financial Reports and average daily membership counts provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Higher costs in certain noninstructional areas associated with lower classroom dollar percentages—As per-pupil spending on plant operations, administration, student support services, or transportation increases, the classroom dollar percentage decreases, on average. For each of these noninstructional areas, auditors compared the districts with the highest and lowest per-pupil costs by ranking districts on per-pupil costs and then identifying the top one-fifth as the high-cost group and the bottom one-fifth as the low-cost group. As seen in Figure 6, districts with the lowest costs in these noninstructional areas, on average, have classroom dollar percentages that are close to or above the state average. In contrast, districts with the highest costs in these areas spent a significantly lower percentage of dollars in the classroom, on average.

**Figure 6: Comparison of Classroom Dollar Percentages for High- and Low-Cost Groups and State Average Fiscal Year 2006**



Source: Auditor General staff analysis of fiscal year 2006 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Plant costs higher at districts with higher elevations, older buildings, high school campuses, or more square footage per pupil—On average, districts with the highest per-pupil plant costs spent \$1,568 per pupil, which was more than two and one-half times as much as the \$582 spent by the lowest per-pupil plant cost group. Analysis of the districts in the highest and lowest per-pupil plant groups showed these two groups continue to differ in a number of characteristics. Compared to districts in the lowest per-pupil cost group, those in the highest-cost group are:

- **Located at higher elevations with colder temperatures**—The average elevation for high-cost districts was 4,448 feet, compared to the low-cost districts' average of 1,668 feet. The 59-degree average annual temperature for these high-cost districts was 12 degrees cooler than the low-cost districts' 71-degree average.
- **Operating and maintaining older buildings**—High-cost districts' buildings were more than 5 years (30 percent) older, on average. For this comparison, each building's age was weighted by its proportion of the district's total square footage.
- **Serving more high school students**—90 percent of the high-cost districts were high school or unified, whereas 58 percent of the low-cost districts were elementary. This is probably due to high schools incurring costs for maintaining specialized facilities such as football fields, swimming pools, vocational classrooms, and science laboratories.
- **Providing more building space per pupil**—On average, high-cost districts provided about 2.5 times more square footage per pupil (283 square feet) as the low-cost districts (114 square feet). State requirements for square footage per pupil, established in 1999, range from 80 to 125 square feet, depending on school size and grades served.

Administrative costs higher at districts with fewer students, higher staffing, and more district-level staffing—On average, the districts with the highest per-pupil administrative costs spent \$1,561 per pupil, more than three times as much as the \$506 spent by the lowest per-pupil administrative cost group. Compared to those in the lowest per-pupil cost group, districts in the highest-cost group are:

- **Serving smaller student populations**—65 percent of the high-cost districts are small, serving between 200 and 599 students, while none of the low-cost districts are small.

- **Maintaining higher staffing levels**—On average, high-cost districts served only 41 students per administrative position, while the low-cost districts served 75 students per administrative position.<sup>1</sup>
- **Staffing more district-level positions**—High-cost districts spent 69 percent of their administrative dollars at the district level and only 31 percent at the school level. In contrast, districts in the low-cost group spent 47 percent of their administrative dollars at the district level and 53 percent at the school level. School administration includes the principal’s office and other school-level administrative services. District administration includes general administration, business support services, and central support services.

Two medium-sized districts located in eastern Arizona towns staffed their schools with a similar number of administrative staff. However, the high-cost district employed 37 administrative staff in the district office, while the low-cost district employed only 18.5 district-level administrative positions.

In a sample controlled for differences in district size, the low- and high-cost groups staffed schools with a similar number of administrative staff. However, the high-cost group had nearly twice as many administrative staff in the district office as the low-cost group, on average.

**Student support costs higher at districts with more at-risk students or high school students**—On average, the districts with the highest per-pupil student support service costs spent \$869 per pupil, which was more than four times as much as the \$212 spent by the lowest per-pupil student support cost group. As with the other noninstructional areas, the groups with the highest and lowest per-pupil student support costs also differed in certain characteristics. Compared to districts in the lowest per-pupil cost group, those in the highest-cost group are:

- **Serving more at-risk students**—According to 2006 Census Bureau estimates, 33 percent of students in the high-cost districts live in poverty, compared to 22 percent of those in the low-cost districts. On a per-pupil basis, high-cost districts also spent more than five times as much in federal and state grant money on student support services than low-cost districts did. These grants include programs such as Title I for the disadvantaged and IDEA for children with disabilities, which are, at least in part, earmarked for student support-type activities.
- **Employing more guidance counselors and social workers to meet at-risk student needs**—The high-cost districts have more than twice the number of guidance counselors and social workers who together served 481 students each, while the low-cost districts’ guidance counselors and social workers served 1,102 students each.
- **Serving more high school students**—77 percent of the high-cost districts were high school or unified, while 48 percent of the low-cost districts were

<sup>1</sup> Administrative positions are based on a “full-time equivalent” calculation.



elementary. The cost difference would be partly due to high schools having more counselors who provide career and teen-related guidance to high school students.

**Transportation costs higher at districts that transport more of their students or transport them farther**—On average, districts with the highest per-pupil transportation costs spent \$761 per pupil, more than four and one-half times as much as the \$161 spent by the lowest per-pupil transportation cost group. As with other noninstructional costs, the groups with the highest and lowest per-pupil transportation costs also differed in certain characteristics. Compared to those in the lowest per-pupil cost group, districts in the highest-cost group are:

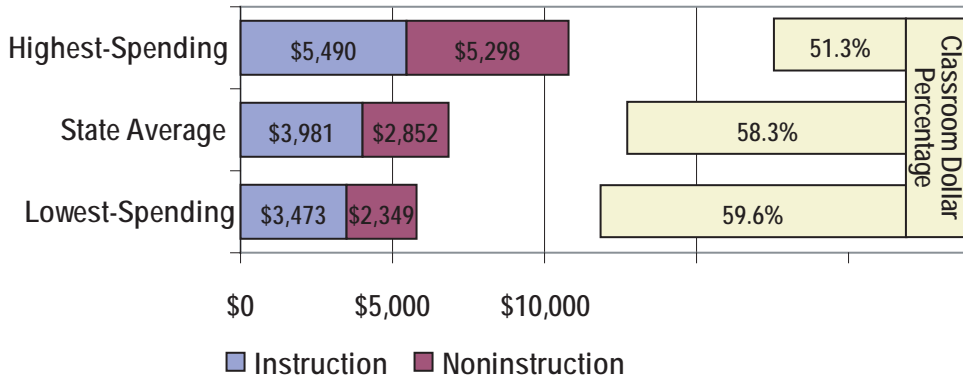
- **Transporting a higher percentage of student population**—The high-cost districts transport, on average, 76 percent of their student population, compared to 32 percent for low-cost districts.
- **Transporting students farther**—On average, the high-cost districts transport each rider 429 miles per year, over two and one-half times farther than the low-cost districts, which averaged 155 miles per year.

## Higher per-pupil spending does not equate to higher classroom dollar percentages

Districts that spend the most per pupil have lower classroom dollar percentages, on average. These districts continue to spend a greater percentage of their total resources for administration, transportation, student support services, and plant costs. Higher per-pupil spending may be related to lower classroom dollar percentages for several reasons, including costs that are outside the district's control, inefficient operation of noninstructional areas, and the availability of additional funding.

**High-spending districts averaged a lower percentage of dollars in the classroom**—As total current expenditures per pupil increase, the dollars per pupil spent in the classroom also increase, on average. However, the proportion of available resources being spent in the classroom decreases, on average. Figure 7 (see page 23) shows the average instruction and noninstruction per-pupil spending for the highest- and lowest-spending districts, compared to the state average. On average, the highest-spending districts spent \$2,017 more per pupil on instruction than the lowest-spending districts and \$1,509 more than the state average. However, on average, these highest-spending districts spent only 51.3 percent of available monies in the classroom compared to the 59.6 percent spent by the lowest-spending districts.

Figure 7: Instruction and Noninstruction Per-Pupil Spending by Highest- and Lowest-Spending Districts and State Average, With Average Classroom Dollar Percentages<sup>1</sup>  
Fiscal Year 2006



<sup>1</sup> The percentages shown are calculated as averages of district classroom dollar percentages and may not equal each group's average instruction expenditures divided by its average total current expenditures.

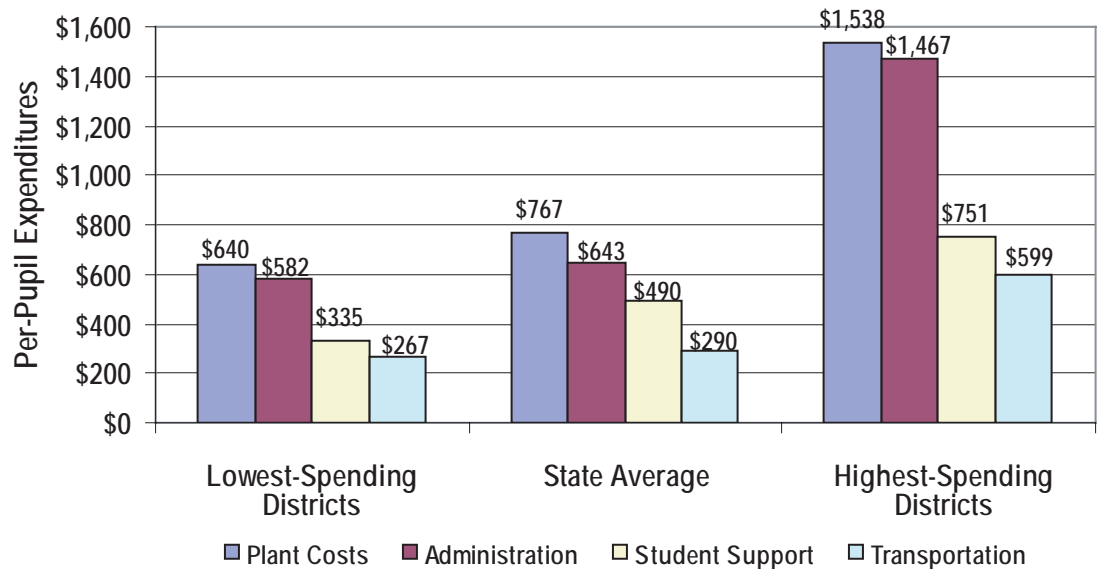
Source: Auditor General staff analysis of fiscal year 2006 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Highest-spending districts spent significantly more of their resources outside the classroom—As seen in Figure 8 (see page 24), the lowest-spending districts spent their noninstructional dollars at rates similar to the state-wide averages. However, the highest-spending districts spent more than twice as much per pupil on each category (plant, administration, student support, and transportation costs) than the lowest spending districts.

High noninstructional spending may or may not be within district control—The negative relationship between total spending per pupil and classroom dollar percentages has several possible explanations. They include the following:

- District location and student population outside of district control**—Highest-spending districts tend to be small, rural, and/or have declining student enrollment. About 52 percent of the highest-spending districts operate in rural locations, while only 16 percent of the lowest-spending districts are rural. One reason districts in rural areas may incur higher noninstructional costs is because they tend to transport their riders longer distances, which is a factor associated with higher transportation costs. Also, 48 percent of the highest-

Figure 8: Per-Pupil Spending on Certain Noninstructional Costs by Lowest- and Highest-Spending Districts and State Average Fiscal Year 2006



Source: Auditor General staff analysis of fiscal year 2006 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

spending districts are small, whereas only 3 percent of the lowest-spending districts are small.<sup>1</sup> Smaller districts have fewer students over which to spread their fixed costs. In addition, the highest-spending districts experienced a 2.9 percent decline in student population from fiscal year 2005, while the lowest-spending group experienced a 14.8 percent increase, on average. These year-to-year changes in student population, especially at small districts, can significantly affect per-pupil costs.

- Inefficient operations within district control**—Inefficient operation of noninstructional areas, such as those that have been identified by the Auditor General’s performance audits of individual school districts (see text box on page 25), can result in higher expenditures outside the classroom, and thus, lower classroom dollar percentages. Prior audits have identified the following types of inefficient operations: high administrative staffing and salary levels, not following proper bidding procedures likely resulting in higher costs, inefficient bus routes resulting in low bus capacity utilization, and maintaining excessive amounts of unneeded building space.
- Additional revenue sources**—Higher-spending districts have more total revenues to spend. On average, districts with high per-pupil total expenditures

<sup>1</sup> For the total 156 districts analyzed, 35 percent are in rural locations and 21 percent are small.

receive more federal and state grants, federal impact aid, budget overrides, small school budget adjustments, or rapid decline budget adjustments than lower-spending districts. How these additional revenues are spent is within district control to varying degrees, depending on the revenue source.

- **Federal and state grants**—Districts have less control over whether federal or state grants are spent in the classroom. For example, districts receiving *Individuals with Disabilities Education Act (IDEA)* federal grant monies are required to include professionals such as school psychologists and speech-language pathologists when conducting individual diagnostic examinations of children suspected of having a specific learning disability. On average, the highest-spending districts spent almost four times the amount per pupil from federal and state grants.
- **Budget capacity increases**—Districts have significant control over whether monies from statutorily authorized budget adjustments and federal impact aid are spent in the classroom. On average, the highest-spending districts increased their Maintenance and Operation Fund budget capacity by 13 percent through these revenue sources:
  - *Small school and rapid decline adjustments*—Thirteen of the highest-spending districts increased their budget capacity through rapid decline adjustments, which are given to schools that experience a decline in student count of at least 5 percent. Four did so through small school adjustments, which are allowed for districts with 125 or fewer students in grades K-8, or with 100 or fewer students in grades 9 through 12. In contrast, none of the lowest-spending districts were eligible for these increases.
  - *Federal impact aid*<sup>1</sup>—Twenty of the highest-spending districts received federal impact aid, compared to only 5 in the lowest spending group. In the highest-spending group, most of the federal impact aid went to districts serving students living on reservations. Reservation districts spend over \$12,000 per pupil, on average,

## Examples of Performance Audit Recommendations

### District staff should review and monitor:

- **Administrative staffing levels**—At district and schools to identify potential ways to reduce salary and benefit costs.
- **Employment contracts**—To ensure that all compensation, including bonus pay, is specified in the contract.
- **Employee travel claims**—To ensure appropriate reimbursement.
- **Costs per meal and meals per labor hour**—To identify and reduce high costs areas.
- **Food service contract terms**—Such as requiring the vendor to break even or generate a profit.
- **Cost per mile, cost per rider, miles per rider, and bus capacity utilization**—To identify inefficiencies and reduce transportation costs.
- **Reported transportation miles and riders**—To ensure the district receives the appropriate amount of transportation funding.
- **Cost per square foot**—To identify and reduce high plant operations and maintenance costs.
- **Plant operations staffing levels**—To identify potential ways to reduce salary and benefit costs.
- **Electricity usage and costs per building**—To identify potential ways to reduce electricity costs.

<sup>1</sup> Federal Impact Aid is additional federal money provided to districts that have been impacted by the presence of tax-exempt federal lands or the enrollment of students living on federal lands, such as military bases and reservations.

which was the highest in the State.<sup>1</sup> Similar to other high-spending districts, most of their expenditures are in noninstructional areas, resulting in an average classroom dollar percentage of 49.3 percent.

Ultimately, because these districts have more revenues to spend, they are able to spend above the state average for per-pupil classroom expenditures and still have sufficient revenues to support higher-than-average expenditures for nonclassroom purposes, resulting in a lower-than-average classroom dollar percentage.

## Individual district percentages

Table 9 (see pages 27 through 29) lists the fiscal year 2006 classroom dollar percentages for each of the 208 districts grouped by size, 11 accommodation districts, and 10 joint technological education districts. For further information, see the attached Appendix, which provides alphabetically organized, one-page summaries for each district. Along with other information, these pages show each district's comparative classroom dollar ranking from 1 (highest) to 229 (lowest).

<sup>1</sup> This amount is based on the 156 districts included in analysis and excludes the very small districts, which tend to have the highest per-pupil spending.

Table 9: Districts Grouped by Size (Average Daily Membership) and Ranked by Percentage of Dollars Spent in the Classroom<sup>1</sup> Fiscal Year 2006

|   |                        |  |                        |
|---|------------------------|--|------------------------|
| <b>Very Large (20,000+)</b>             | <b>Average = 60.8%</b> | <b>Large (Concl'd)</b>                     |                        |
| Chandler Unified School District        | 63.7%                  | Tempe Elementary School District           | 55.5%                  |
| Gilbert Unified School District         | 63.3%                  | Casa Grande Elementary School District     | 55.2%                  |
| Mesa Unified School District            | 62.7%                  | Phoenix Elementary School District         | 55.1%                  |
| Paradise Valley Unified School District | 62.1%                  | Creighton Elementary School District       | 55.0%                  |
| Washington Elementary School District   | 62.0%                  | Apache Junction Unified School District    | 54.5%                  |
| Cartwright Elementary School District   | 61.3%                  | Yuma Union High School District            | 53.5%                  |
| Deer Valley Unified School District     | 61.2%                  | Yuma Elementary School District            | 51.7%                  |
| Peoria Unified School District          | 60.6%                  |  |                        |
| Scottsdale Unified School District      | 60.5%                  | <b>Medium (600-4,999)</b>                  | <b>Average = 55.0%</b> |
| Phoenix Union High School District      | 56.8%                  | Toltec Elementary School District          | 64.6%                  |
| Tucson Unified School District          | 54.9%                  | Bullhead City Elementary School District   | 63.4%                  |
|   |                        | Florence Unified School District           | 63.2%                  |
| <b>Large (5,000-19,999)</b>             | <b>Average = 58.1%</b> | Liberty Elementary School District         | 62.1%                  |
| Kyrene Elementary School District       | 64.0%                  | Blue Ridge Unified School District         | 61.8%                  |
| Lake Havasu Unified School District     | 61.8%                  | Mingus Union High School District          | 61.3%                  |
| Prescott Unified School District        | 61.5%                  | Safford Unified School District            | 60.4%                  |
| Tolleson Union High School District     | 61.4%                  | Buckeye Elementary School District         | 60.3%                  |
| Alhambra Elementary School District     | 61.2%                  | Mohave Valley Elementary School District   | 59.9%                  |
| Avondale Elementary School District     | 61.1%                  | Thatcher Unified School District           | 59.9%                  |
| Vail Unified School District            | 60.2%                  | Willcox Unified School District            | 59.9%                  |
| Flowing Wells Unified School District   | 60.0%                  | J. O. Combs Elementary School District     | 59.8%                  |
| Glendale Union High School District     | 59.8%                  | Santa Cruz Valley Unified School District  | 59.0%                  |
| Roosevelt Elementary School District    | 59.7%                  | Balsz Elementary School District           | 58.9%                  |
| Cave Creek Unified School District      | 59.6%                  | Douglas Unified School District            | 58.8%                  |
| Tempe Union High School District        | 59.6%                  | Tanque Verde Unified School District       | 58.8%                  |
| Dysart Unified School District          | 59.4%                  | Benson Unified School District             | 58.6%                  |
| Humboldt Unified School District        | 59.3%                  | Colorado River Union High School District  | 58.3%                  |
| Pendergast Elementary School District   | 59.3%                  | Chino Valley Unified District              | 58.2%                  |
| Madison Elementary School District      | 59.2%                  | Catalina Foothills Unified School District | 58.1%                  |
| Marana Unified School District          | 58.7%                  | Snowflake Unified School District          | 58.0%                  |
| Higley Unified School District          | 58.6%                  | Globe Unified School District              | 57.8%                  |
| Litchfield Elementary School District   | 58.4%                  | Queen Creek Unified School District        | 57.8%                  |
| Flagstaff Unified School District       | 58.3%                  | Pima Unified School District               | 57.6%                  |
| Isaac Elementary School District        | 56.9%                  | Fowler Elementary School District          | 57.5%                  |
| Sierra Vista Unified School District    | 56.9%                  | Williams Unified School District           | 57.5%                  |
| Sunnyside Unified School District       | 56.7%                  | Payson Unified School District             | 57.4%                  |
| Amphitheater Unified School District    | 56.5%                  | Wilson Elementary School District          | 57.3%                  |
| Crane Elementary School District        | 56.5%                  | St. Johns Unified School District          | 57.2%                  |
| Glendale Elementary School District     | 56.3%                  | Fountain Hills Unified School District     | 57.1%                  |
| Nogales Unified School District         | 56.1%                  | Mammoth-San Manuel Unified School District | 57.1%                  |
| Kingman Unified School District         | 55.8%                  | Littleton Elementary School District       | 57.0%                  |

<sup>1</sup> Accommodation and Joint Technological Education Districts are grouped separately.

Table 9 (Cont'd)

| <b>Medium (Concl'd)</b>                          |       | <b>Small (200-599)</b>                       |  | <b>Average = 53.7%</b> |       |
|--|-------|--|--|------------------------|-------|
| Sahuarita Unified School District                | 56.7% | Wellton Elementary School District           |  |                        | 63.6% |
| Show Low Unified School District                 | 56.7% | Peach Springs Unified School District        |  |                        | 61.3% |
| Whiteriver Unified School District               | 56.6% | Naco Elementary School District              |  |                        | 61.0% |
| Murphy Elementary School District                | 56.4% | Beaver Creek Elementary School District      |  |                        | 60.7% |
| Morenci Unified School District                  | 56.3% | Clarkdale-Jerome Elementary School District  |  |                        | 60.0% |
| Agua Fria Union High School District             | 56.1% | Fredonia-Moccasin Unified School District    |  |                        | 59.8% |
| Palominas Elementary School District             | 55.6% | Duncan Unified School District               |  |                        | 58.1% |
| Maricopa Unified School District                 | 55.5% | St. David Unified School District            |  |                        | 56.9% |
| Winslow Unified School District                  | 55.5% | Picacho Elementary School District           |  |                        | 55.8% |
| Holbrook Unified School District                 | 55.4% | Ajo Unified School District                  |  |                        | 55.4% |
| Miami Unified School District                    | 55.1% | Ray Unified School District                  |  |                        | 55.4% |
| Wickenburg Unified School District               | 55.0% | Continental Elementary School District       |  |                        | 55.3% |
| Page Unified School District                     | 54.8% | Ft. Thomas Unified School District           |  |                        | 54.7% |
| Parker Unified School School District            | 54.7% | Mohawk Valley Elementary School District     |  |                        | 54.5% |
| Sedona-Oak Creek Joint Unified School District   | 54.6% | Littlefield Unified School District          |  |                        | 54.4% |
| Coolidge Unified School District                 | 54.4% | Arlington Elementary School District         |  |                        | 54.3% |
| Camp Verde Unified School District               | 54.2% | Joseph City Unified School District          |  |                        | 54.0% |
| Nadaburg Elementary School District              | 54.1% | Mayer Unified School District                |  |                        | 53.9% |
| Casa Grande Union High School District           | 54.0% | Palo Verde Elementary School District        |  |                        | 53.4% |
| Cottonwood-Oak Creek Elementary School District  | 53.5% | Gila Bend Unified School District            |  |                        | 53.0% |
| Tolleson Elementary School District              | 53.5% | Oracle Elementary District                   |  |                        | 52.7% |
| Eloy Elementary School District                  | 52.9% | Antelope Union High School District          |  |                        | 52.3% |
| Round Valley Unified School District             | 52.5% | Superior Unified School District             |  |                        | 52.3% |
| Riverside Elementary School District             | 52.4% | Hayden-Winkelman Unified School District     |  |                        | 52.2% |
| Bisbee Unified School District                   | 52.1% | Sacaton Elementary School District           |  |                        | 50.4% |
| Window Rock Unified School District              | 52.0% | Heber-Overgaard Unified School District      |  |                        | 49.8% |
| Buckeye Union High School District               | 51.7% | Quartzsite Elementary School District        |  |                        | 49.6% |
| Saddle Mountain Unified School District          | 51.2% | Grand Canyon Unified School District         |  |                        | 49.2% |
| Laveen Elementary School District                | 51.0% | Santa Cruz Valley Union High School District |  |                        | 49.0% |
| Tombstone Unified School District                | 50.9% | Bagdad Unified School District               |  |                        | 48.4% |
| San Carlos Unified School District               | 50.5% | Cedar Unified School District                |  |                        | 48.1% |
| Somerton Elementary School District              | 50.5% | Ash Fork Joint Unified School District       |  |                        | 47.0% |
| Gadsden Elementary School District               | 50.2% | Colorado City Unified School District        |  |                        | 37.0% |
| Union Elementary School District                 | 50.1% |  |  |                        |       |
| Osborn Elementary School District                | 50.0% | <b>Very Small (1-199)</b>                    |  | <b>Average = 54.0%</b> |       |
| Chinle Unified School District                   | 49.6% | Blue Elementary School District              |  |                        | 84.5% |
| Indian Oasis-Baboquivari Unified School District | 49.3% | Valentine Elementary School District         |  |                        | 76.3% |
| Tuba City Unified School District                | 47.9% | Crown King Elementary School District        |  |                        | 71.2% |
| Sanders Unified School District                  | 47.8% | Sonoita Elementary School District           |  |                        | 66.7% |
| Altar Valley Elementary School District          | 47.3% | Hillside Elementary School District          |  |                        | 64.5% |
| Ganado Unified School District                   | 46.3% | Mcnary Elementary School District            |  |                        | 64.0% |
| Stanfield Elementary School District             | 46.3% | Yucca Elementary School District             |  |                        | 63.4% |
| Kayenta Unified School District                  | 44.5% | Double Adobe Elementary School District      |  |                        | 63.3% |
| Red Mesa Unified School District                 | 42.6% | Bonita Elementary School District            |  |                        | 62.1% |
| Pinon Unified School District                    | 42.0% | Santa Cruz Elementary School District        |  |                        | 60.9% |

Table 9 (Concl'd)

**Very Small (Cont'd)**

|  |       |
|--|-------|
| Bowie Unified School District                  | 60.7% |
| Owens-Whitney Elementary School District       | 60.2% |
| San Simon Unified School District              | 59.3% |
| Young Elementary School District               | 59.0% |
| Hackberry Elementary School District           | 56.7% |
| Topock Elementary School District              | 56.4% |
| Valley Union High School District              | 56.3% |
| Hyder Elementary School District               | 55.8% |
| Red Rock Elementary School District            | 54.9% |
| Pomerene Elementary School District            | 54.8% |
| Congress Elementary School District            | 54.7% |
| Skull Valley Elementary School District        | 54.6% |
| Cochise Elementary School District             | 54.3% |
| Solomon Elementary School District             | 54.1% |
| Tonto Basin Elementary School District         | 54.0% |
| Patagonia Elementary School District           | 53.9% |
| Pearce Elementary School District              | 53.9% |
| Apache Elementary School District              | 53.5% |
| Kirkland Elementary School District            | 53.0% |
| Alpine Elementary School District              | 52.9% |
| Seligman Unified School District               | 51.8% |
| Aguila Elementary School District              | 51.6% |
| Bouse Elementary School District               | 50.5% |
| Canon Elementary School District               | 50.5% |
| Clifton Unified School District                | 50.5% |
| Paloma Elementary School District              | 50.5% |
| Elfrida Elementary School District             | 50.1% |
| Pine Strawberry Elementary School District     | 49.7% |
| Morristown Elementary School District          | 47.8% |
| Sentinel Elementary School District            | 47.8% |
| McNeal Elementary School District              | 47.7% |
| Wenden Elementary School District              | 46.9% |
| Bicentennial Union High School District        | 46.0% |
| San Fernando Elementary School District        | 45.0% |
| Concho Elementary School District              | 44.1% |
| Maine Consolidated School District             | 43.8% |
| Yarnell Elementary School District             | 43.7% |
| Salome Consolidated Elementary School District | 43.4% |
| Vernon Elementary School District              | 43.3% |

**Very Small (Concl'd)**

|                                      |       |
|--------------------------------------|-------|
| Ash Creek Elementary School District | 42.9% |
| Patagonia Union High School District | 40.2% |
| Mobile Elementary School District    | 28.6% |

**Accommodation Average = 47.1%**

|  |       |
|--|-------|
| Pima Accommodation School District                     | 64.3% |
| Ft. Huachuca Accommodation School District             | 59.7% |
| Rainbow Accommodation School District                  | 53.1% |
| Coconino County Regional Accommodation School District | 50.7% |
| Yavapai Accommodation School District                  | 47.7% |
| Maricopa County Regional School District               | 45.9% |
| Mary C. O'Brien Accommodation School District          | 42.8% |
| Graham County Special Services                         | 41.8% |
| Pinal County Special Education Program                 | 41.8% |
| Santa Cruz County Regional School District             | 36.9% |
| Gila County Regional School District                   | 33.1% |

**Joint Technological Education<sup>1</sup> Average = 18.7%**

|   |       |
|---|-------|
| East Valley Institute of Technology                               | 58.3% |
| Northern Arizona Vocational Institute of Technology               | 50.3% |
| Central Arizona Valley Institute of Technology                    | 34.6% |
| Gila Institute for Technology                                     | 11.6% |
| Northeast Arizona Technological Institute of Vocational Education | 11.6% |
| Valley Academy for Career and Technology Education                | 11.1% |
| Western Maricopa Education Center                                 | 6.2%  |
| Cobre Valley Institute of Technology District                     | 3.1%  |
| Cochise Technology School District                                | 0.0%  |
| Coconino Association for Vocation Industry and Technology         | 0.0%  |

<sup>1</sup> 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 2006 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.





# CHAPTER 2

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## Districts' uses of Proposition 301 monies

School districts, charter schools, and state schools received over \$379 million of Proposition 301 monies in fiscal year 2006—an increase of almost \$102 million from fiscal year 2005. This increase was largely due to increased sales tax revenues, but also related to the distribution of over \$17 million accumulated from previous years. School districts continued to use Proposition 301 monies primarily to increase salaries of certified teachers and other employees they have defined as eligible. These monies continued to account for 1 percent to 25 percent of eligible employees' pay and ranged from \$407 to \$8,426, on average. The state-wide average teacher salary has increased by \$5,791 since the inception of Proposition 301 monies. However, the Arizona Department of Education (ADE) revised the way it collects average teacher salary data from districts, making prior years' averages not fully comparable to fiscal year 2006. Some monies were spent for unallowable purposes. In addition, while statute prohibits districts from using Proposition 301 monies to supplant, or replace, existing teacher compensation monies, a review of some basic indicators suggests that supplanting may have occurred in a few districts.

### Background

In November 2000, voters approved Proposition 301, which increased the state sales tax by six-tenths of 1 percent for 20 years to fund educational programs. Under Arizona statutes, school districts receive only part of the Proposition 301 monies. Statutes define and prioritize nine education programs that receive Proposition 301 distributions before schools. As shown in Table 10 (see page 32), the Students FIRST Debt Service Fund receives the first allocation, which is the amount necessary to make annual debt service payments for outstanding state school facilities revenue bonds. The other prioritized distributions go to universities, community colleges, ADE, and the State's General Fund. In fiscal year 2006, these other distributions accounted for about \$278 million of the \$622 million of Proposition 301 sales tax revenues, or 45 percent.

Table 10: Proposition 301 Distributions in Statutory Priority Order  
Fiscal Years 2005 and 2006  
(Unaudited)

|   | FY 2005              | FY 2006              |
|---|----------------------|----------------------|
| <b>Sales Tax Revenue</b>  | \$532,417,579        | \$621,779,771        |
| <b>Students FIRST Debt Service Fund</b> —the amount necessary to pay annual debt service payments for outstanding state school facilities revenue bonds. The revenue bonds cannot exceed \$800 million. | 65,814,700           | 65,804,955           |
| <b>Universities</b> —Technology and Research Initiative Fund for investment in technology and research-based initiatives. (12 percent of amount remaining after Students FIRST deduction.)              | 55,992,345           | 66,716,978           |
| <b>Community College Districts</b> —for districts' Workforce Development Accounts that invest in workforce development programs. (3 percent of amount remaining after Students FIRST deduction.)        | 13,998,086           | 16,679,244           |
| <b>Tribal Assistance</b> —to community colleges owned, operated or chartered by qualifying Indian tribes for investment in workforce development and job training.                                      | 516,637              | 543,976              |
| <b>Arizona Department of Education (ADE) for five programs:</b>   |                      |                      |
| • Additional School Days—to fund additional school days and the associated teacher salaries.  | 66,957,200           | 86,280,500           |
| • School Safety programs  | 7,800,000            | 7,800,000            |
| • Character Education matching grant program  | 200,000              | 200,000              |
| • School Accountability—for developing performance measures and a state-wide database on student attendance and academic performance.   | 7,000,000            | 7,000,000            |
| • Failing Schools Tutoring Fund   | 1,500,000            | 1,500,000            |
| <b>Income tax credit for sales tax paid</b> —reimburses the State's General Fund for the increased income tax credits to low-income households resulting from the sales tax increase.                   | <u>25,000,000</u>    | <u>25,000,000</u>    |
| <b>Remaining Sales Tax Revenue</b>  | 287,638,611          | 344,254,118          |
| <b>Other Classroom Site Fund Resources/Deductions:</b>  |                      |                      |
| Permanent State School Fund earnings (Land Trust)   | 12,936,570           | 17,834,630           |
| Prior year carry forward  |                      | 17,426,057           |
| Funds deposited in Classroom Site Fund in error in prior years  | (5,165,706)          |                      |
| Monies withheld for AIMS noncompliance <sup>1</sup>   | (39,032)             |                      |
| Monies withheld for Arizona School Improvement Plan (ASIP) noncompliance <sup>2</sup>   | (206,560)            |                      |
| Monies not yet distributed <sup>3</sup>   | <u>(17,608,654)</u>  | <u>(4,500)</u>       |
| <b>Total Classroom Site Fund</b> —distributed to districts and charter and state schools  | <u>\$277,555,229</u> | <u>\$379,510,305</u> |

<sup>1</sup> These monies were to be distributed once schools complied with AIMS requirements.

<sup>2</sup> These monies remain in the CSF for future years' distributions; the monies are not paid to the district when the ASIP has been submitted.

<sup>3</sup> ADE is not permitted to allocate monies in excess of the per-pupil amount established by JLBC. These amounts are included in the subsequent year's distributions.

Source: Auditor General staff analysis of Arizona Department of Education and Arizona State Treasurer's Office fiscal years 2005 and 2006 revenue collection and distribution data.

After all of these distributions, any remaining Proposition 301 sales tax collections go to the Classroom Site Fund (CSF) for allocation to public school districts, charter schools, and state schools for deaf, blind, and committed youth. In fiscal year 2006, sales tax collections plus other sources to this fund totaled approximately \$379 million, including over \$17 million in monies carried forward from prior fiscal years. ADE distributes Proposition 301 monies to districts based on a per-pupil rate set by the Joint Legislative Budget Committee (JLBC). Initially, for fiscal year 2006, the JLBC established a \$353 per-pupil rate; however, the actual per-pupil amount distributed to the districts, on average, equated to \$320.<sup>1</sup> In total, ADE distributed approximately \$341 million to school districts, or about 90 percent of the \$379 million distributed; charter and state schools received the remainder.

Once school districts receive the monies, they must comply with statutory requirements regarding how the monies may be spent. Arizona Revised Statutes (A.R.S.) §15-977 directs districts to use at least 60 percent of CSF monies for teacher compensation. Districts are required to direct 20 percent toward increasing teachers' base pay and another 40 percent toward pay for performance. The remaining 40 percent, known as menu monies, can be used for six specified purposes: AIMS intervention (for the state-standardized test, Arizona's Instrument to Measure Standards), class size reduction, dropout prevention, additional teacher compensation, teacher development, or teacher liability insurance. Districts are required to use these monies to supplement, not supplant, existing funding. Further, in succeeding years, the Legislature specified that CSF monies could not be used for administrative purposes, and also required that monies directed toward class size reduction, AIMS intervention, and dropout prevention be spent only on instruction, except that they cannot be spent for athletics.<sup>2</sup> In 2005, the Legislature established the Arizona Performance Based Compensation System Task Force to evaluate and report on school districts' performance-based compensation.<sup>3</sup> In conjunction with establishing this task force, the Legislature also established requirements for Proposition 301 performance pay, which previously had no guidelines. These new requirements specify that the Governing Board must adopt the plan at a public meeting and lists seven performance measurement elements, such as measures of academic progress, dropout or graduation rates, and attendance rates, that the plan should contain. However, the Governing Board may modify these elements and consider additional elements as long as the plan is adopted at a public meeting.

<sup>1</sup> The fiscal year 2006 per-pupil rate decreased from \$353 to \$320 because Proposition 301 revenues did not grow at the rate initially anticipated. However, school districts were able to budget and spend up to the \$353 per-pupil amount.

<sup>2</sup> In Laws 2000, 5th Special Session, Chapter 1, Section 62, the Legislature specified that CSF monies not be used for administration, and beginning in 2004, further restricted the use of certain menu monies to be spent only on instruction.

<sup>3</sup> By June 30, 2010, this task force is to develop and report recommendations on the implementation, operation, and monitoring of performance-based compensation systems in school districts. Laws 2005, First Regular Session, Chapter 305, amended A.R.S. §15-977.

## Proposition 301 distributions increased by \$92 million in fiscal year 2006

In fiscal year 2006, ADE distributed \$341 million to school districts, which was almost \$92 million, or 37 percent, more Proposition 301 monies than in fiscal year 2005.

Increases in Proposition 301 sales tax revenue primarily accounted for the larger fiscal year 2006 distributions from the Classroom Site Fund. However, approximately \$17 million of the increase, or 19 percent, was identified as a one-time increase due to Proposition 301 monies accumulated from prior fiscal years that had not yet been distributed.

|         | Per-Pupil Amount | Total Amount Distributed to School Districts | Total Amount Expended by School Districts | Average Teacher Salary Increase* |
|---------|------------------|--|---|----------------------------------|
| FY 2005 | \$242            | \$249 million                                | \$250 million                             | \$3,674                          |
| FY 2006 | \$320            | \$341 million                                | \$337 million                             | \$4,304                          |

\* This amount represents teacher pay only. However, districts often pay CSF monies to other positions, such as counselors, librarians, and others.

As shown in Table 11 below, school districts spent more than \$337 million of the \$341 million distributed to them in fiscal year 2006. The largest proportion of school districts' Proposition 301 expenditures, about 93 percent, was used for instruction purposes, such as paying teacher salaries and benefits.

Table 11: Proposition 301 Expenditures by Function  
Fiscal Year 2006  
(Unaudited)

| Function                       | Base Pay            | Performance Pay      | Menu Options         | Total Expenditures   | Percentage of Total |
|--------------------------------|---------------------|----------------------|----------------------|----------------------|---------------------|
| Classroom (instruction)        | \$64,582,532        | \$127,305,872        | \$122,946,892        | \$314,835,296        | 93.4%               |
| Student Support                | 2,380,701           | 3,897,992            | 4,599,897            | 10,878,590           | 3.2                 |
| Instruction Support            | 1,262,101           | 3,048,567            | 6,933,673            | 11,244,341           | 3.3                 |
| Administration                 | 11,240              | 13,926               | 161,459              | 186,625              | 0.1                 |
| Plant Operations & Maintenance | 20,506              | 0                    | 8,397                | 28,903               | 0.0                 |
| Transportation                 | 0                   | 0                    | 93,937               | 93,937               | 0.0                 |
| Food Service                   | 0                   | 0                    | 64                   | 64                   | 0.0                 |
| <b>Total Expenditures</b>      | <b>\$68,257,080</b> | <b>\$134,266,357</b> | <b>\$134,744,319</b> | <b>\$337,267,756</b> | <b>100.0%</b>       |

Source: Auditor General Staff analysis of district-reported fiscal year 2006 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by the individual school districts.

Pay increases varied widely, ranging from 1 to 25 percent—Proposition 301 monies contribute significantly to many districts' teacher salaries. For the 223 districts including salary information on their required Classroom Site Fund spending reports, Proposition 301 monies provided an average increase of 12 percent, or \$4,304. On an individual district basis, however, the average increases

ranged from approximately 1 to 25 percent, which equated to \$407 to \$8,426 per eligible employee.

One reason for the wide variance in pay increases is that Proposition 301 monies are distributed on a per-pupil basis, rather than based on the number of eligible employees. As a result, districts with fewer pupils receive smaller amounts than those with more pupils. Similarly, teachers in districts with larger student-teacher ratios could potentially receive more monies than those with fewer students per teacher. Further, some of the districts with the highest pay increases were also paying out unspent Proposition 301 monies from prior fiscal years in addition to fiscal year 2006 monies. For example, of the 36 districts that paid an average of \$6,000 or more to each eligible employee, 10 districts used unspent prior years' Proposition 301 monies in addition to fiscal year 2006 revenues.

State-wide average teacher pay has increased by \$5,791 since the inception of Proposition 301 monies—According to salary data collected by ADE, the State's average teacher salary increased from \$37,176 in fiscal year 2001 to \$42,967 in fiscal year 2006. The majority of the \$5,791 increase occurred in fiscal year 2006, with a \$3,872 increase over fiscal year 2005's average teacher salary. This increase in the state-wide average teacher salary is almost \$1,500 more than the average Proposition 301 increase of \$4,304; in prior years, the state-wide average teacher salary did not increase as much as the average Proposition 301 pay increase.

Teacher salaries represent the majority of all dollars spent in the classroom. Yet, despite the significant increase in average teacher salary in fiscal year 2006, the state-wide classroom dollar percentage decreased. Two primary factors may have contributed to this result. One factor is that for fiscal year 2006, ADE revised the methodology used to calculate the state-wide average teacher salaries. As a result, prior years' averages are not fully comparable to the 2006 averages. Specifically, beginning in fiscal year 2006, districts were instructed to include amounts paid to teachers working through temporary agencies. These amounts were previously excluded as the expenditures were previously classified as purchased services. Districts were also instructed to include teacher salary amounts paid from funds that they may not have previously included, such as Proposition 301 performance pay, full-day kindergarten, and instructional improvement monies. However, the data is not available to measure the extent to which these changes impacted the state-wide average teacher salary.

Another contributing factor is that although state-wide teacher salary expenditures increased by approximately \$185 million, in total they represented only 72 percent of fiscal year 2006 dollars spent in the classroom. In contrast, in fiscal year 2005, total teacher salaries represented 73 percent of classroom spending. Further, only 57 percent of the approximately \$533 million increase in school districts' total current expenditures was spent in the classroom.

Eligible employees included staff other than certified teachers—In addition to providing salary increases for teachers, as shown in Table 12, about one-half of the districts continue to report providing Proposition 301 pay increases to librarians and counselors. Fewer districts paid Proposition 301 monies to speech pathologists/audiologists, instructional aides, and “Other” staff, such as nurses and instructional specialists. Among those in the “Other” category, one very small district paid Proposition 301 monies to staff not typically included, such as bus drivers, custodians, and cafeteria workers. The district indicated that these employees were also involved in its students’ education.

**Table 12: Number of Districts Paying Increases  
By Position and Fund  
Fiscal Year 2006**

| Position                         | Number of Districts |                 |              |
|----------------------------------|---------------------|-----------------|--------------|
|                                  | Base Pay            | Performance Pay | Menu Options |
| Teachers                         | 215                 | 217             | 200          |
| Librarians                       | 110                 | 113             | 105          |
| Counselors/Psychologists         | 109                 | 111             | 108          |
| Speech Pathologists/Audiologists | 69                  | 64              | 60           |
| Instructional Aides              | 7                   | 12              | 23           |
| Other                            | 49                  | 50              | 60           |

Source: Auditor General staff analysis of district-reported data in fiscal year 2006 Classroom Site Fund Narrative Results forms.

In addition, the Northern Arizona Vocational Institute of Technology receives Proposition 301 monies; however, because it does not employ teachers, it cannot spend any of its base or performance pay monies. As a result, it had accumulated \$262,397 in Proposition 301 base and performance pay monies since fiscal year 2002. Although the District is seeking advice from ADE, the issue remains unaddressed.

Some Proposition 301 monies not spent for allowable purposes—A few districts paid allowable costs other than salaries and benefits. For example, three districts used a small portion of Proposition 301 monies to pay for allowable interest expense, and two districts paid for teacher liability insurance, which is a specifically authorized type of cost that gets categorized as a plant operation expense.<sup>1</sup> But, as shown in Table 13 (see page 37), four districts spent approximately \$209,000 of Proposition 301 menu monies for expenditures not allowed by law. Since fiscal year 2004, A.R.S. §15-977 requires that menu monies directed toward class size reduction, AIMS intervention, and dropout prevention be

<sup>1</sup> Interest expense is an allowable cost for registering warrants when spending Proposition 301 monies on a budget basis before the cash is available in the district's Classroom Site Fund.

spent only on instruction, except that they cannot be spent for athletics. However, the districts listed in the table also spent menu monies for these three specified programs on administration, plant operations, and transportation.

**Table 13: Proposition 301 Expenditures from Menu Options for Administration, Plant, and Transportation Functions  
Fiscal Year 2006  
(Unaudited)**

| District Name                        | Function         | Description of Expenditures   | Amount Spent            |
|--------------------------------------|------------------|---|-------------------------|
| Amphitheater Unified School District | Transportation   | Transporting students to summer school for AIMS intervention  | \$ 87,731 <sup>1</sup>  |
| Deer Valley Unified School District  | Administration   | Administering of the District's dropout prevention program, including salary and benefits for the program's principal and secretary as well as printing and binding costs for program materials | 106,912                 |
|                                      | Plant Operations | Additionally, Deer Valley USD paid salary and benefit costs for a security monitor and custodian for its dropout prevention program   | 8,147                   |
| Fowler Elementary School District    | Transportation   | Transporting students who attended a field trip for AIMS intervention summer school   | 267                     |
| Madison Elementary School District   | Transportation   | Transporting students who attended after-school tutoring for AIMS intervention  | 5,938                   |
| <b>Total</b>                         |                  |   | <b><u>\$208,995</u></b> |

<sup>1</sup> Amphitheater Unified revised its Annual Financial Report in February 2007 to correct these expenditures.

Source: Auditor General staff analysis of fiscal year 2006 school district Annual Financial Reports provided by the Arizona Department of Education, and summary accounting data provided by individual school districts.

In addition, according to A.R.S. §15-977, school districts cannot supplant, or replace, existing teacher compensation monies with Proposition 301 monies. However, based on a review of three basic indicators—Proposition 301 monies paid to teachers, teachers' average years of experience, and average teacher salaries—36 districts may have used Proposition 301 monies to supplant other teacher compensation monies. In these districts, the increases in average teacher salaries were not large enough to account for the normal increases that should have occurred due to increased teacher experience and the additional salary increases resulting from Proposition 301 monies.

Districts based performance pay on a variety of goals—Districts created a variety of goals as a basis for awarding the 40 percent of Proposition 301 monies required to be used for performance-based pay increases. As in prior years, most districts reported performance pay goals related to student achievement, teacher development, and to parent and student satisfaction or involvement, as shown in Table 14 (see page 38).



Table 14: Number of Districts with Performance Pay Goals by Category  
Fiscal Year 2006

| Goal Category               | Number of Districts |                     | Percentage Accomplishing Goals |
|-----------------------------|---------------------|---------------------|--------------------------------|
|                             | Setting Goals       | Accomplishing Goals |                                |
| Student Achievement         | 187                 | 179                 | 96%                            |
| Teacher Development         | 114                 | 108                 | 95                             |
| Parent/Student Satisfaction | 92                  | 87                  | 95                             |
| Teacher Evaluation          | 72                  | 71                  | 99                             |
| Student Attendance          | 59                  | 55                  | 93                             |
| Leadership                  | 53                  | 51                  | 96                             |
| Tutoring                    | 52                  | 48                  | 92                             |
| Teacher Attendance          | 26                  | 26                  | 100                            |
| Dropout/Graduation Rates    | 29                  | 27                  | 93                             |
| Other                       | 33                  | 33                  | 100%                           |

Source: Auditor General staff analysis of district-reported data indicating one or more goals set and accomplished obtained from fiscal year 2006 Classroom Site Fund Narrative Results forms.

As noted previously, school district governing boards must adopt at a public hearing the performance-based compensation system for Proposition 301 and other performance-based monies.<sup>1</sup> The compensation system must incorporate seven specific performance measurement elements such as measures of academic progress, dropout or graduation rates, and attendance rates. The plans must also include the input of teachers and administrators, an appeals process for teachers who have been denied performance-based compensation, regular evaluation for effectiveness, and approval of the system based on an affirmative vote of at least 70 percent of the teachers eligible to participate in the system. Finally, the performance-based compensation systems should include teacher development programs that are aligned with the elements of the system. However, districts may revise these elements as long as the compensation system is adopted at a public meeting. Beginning in 2006, Districts are required to submit information on the compensation systems to ADE by December 31 of each year, through 2009.

Although statute lists seven performance measurement elements, district plans vary as to the number and type of elements incorporated, as shown in the attached Appendix. For example, 32 districts incorporated goals addressing at least six different areas of performance measurement. Specifically, these districts' plans included goals related to achieving measures of academic progress, such as targeting certain percentages of growth in standardized test or district assessment scores, achieving Adequate Yearly Progress, or attaining AZ LEARNS labels of

<sup>1</sup> Laws 2005, First Regular Session, Chapter 305, which amended A.R.S. §15-977.

“performing” or better for their schools. In addition, these districts often also required improvements in student and teacher attendance rates and dropout or graduation rates, as well as improved parent or student satisfaction with school or district quality and performance. Many of these districts further incorporated goals requiring teachers to attend a certain number of hours of professional development activities and participate in committees, mentoring, and tutoring. However, other school districts’ performance pay plans were based on only one or two goals. For example, 35 districts’ plans did not include any goals measuring academic progress or school or district performance. Of these districts, 4 based performance pay solely on teachers’ receiving acceptable performance evaluations.

Districts directed menu monies toward various Proposition 301 purposes as well as teacher compensation—Although districts reported spending Proposition 301 menu monies primarily for teacher compensation, many districts directed some of these monies to the other allowable programs or purposes, often by linking part of increased teacher compensation to the activities. For example, teachers often performed additional duties to earn monies associated with AIMS intervention and dropout prevention programs. After direct teacher pay increases, districts again reported spending most of their menu monies on class size reduction, teacher development, and AIMS intervention.

## Individual district results

Further information about how each district reported spending its Proposition 301 monies, its classroom dollar percentage, and related data is provided in the attached Appendix (see page a-1).



# APPENDIX

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 15 shows the data sources used on the individual district pages, and also defines some common terms and acronyms used to describe districts' Proposition 301 goals and results. Also, for reference, a map of Arizona's counties is included as Figure 9 on page a-4.

Table 15: 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 2006. 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 2006 ADM counts. District sizes were categorized as follows: <ul style="list-style-type: none"> <li>• Very Large 20,000+</li> <li>• Large 5,000 to 19,999</li> <li>• Medium 600 to 4,999</li> <li>• Small 200 to 599</li> <li>• Very Small fewer than 200</li> </ul>           |
| Number of schools  | ADE fiscal year 2006 data.   |
| Number of certified teachers                                       | ADE October 2005 data on full-time-equivalent (FTE) certified teachers for fiscal year 2006. Certified FTE numbers are rounded to the nearest whole number.  |
| Student/teacher ratio, district and state for 2004, 2005, and 2006 | Auditor General staff analysis of ADE's ADM and certified teacher counts for fiscal years 2004, 2005, and 2006.  |

Table 15 (Cont'd)

| Data  | Source   |
|---|--|
| Average teacher salary, state—2006  | ADE average annual salaries associated with full-time-equivalent certified teachers, for fiscal year 2006.   |
| Average teacher salary, district—2004, 2005, and 2006                                     | District-reported average fiscal years 2004, 2005, and 2006 teacher salaries, including Proposition 301 monies. Some districts reported corrections to their previously reported prior years' average salary information.  |
| Average years' experience, district—2004, 2005, 2006; and state—2006                      | ADE average years' experience associated with full-time-equivalent certified teachers, by district, for fiscal years 2004, 2005, and 2006. 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 2006 school district summary accounting data and Annual Financial Reports (AFRs), and ADE's fiscal year 2006 ADM counts.   |
| Classroom dollar ranking  | Auditor General staff analysis of 229 Arizona school districts' summary accounting data and AFRs. The ranking numbers are from 1 (highest) to 229 (lowest) based on percentage of dollars spent in the classroom.  |
| 5-year comparison—District and state percentages for 2002 through 2006                    | Auditor General staff analysis of school district summary accounting data and AFRs for fiscal years 2002 through 2006.   |
| Expenditures by function—District and state percentages in fiscal years 2002 through 2006 | Auditor General staff analysis of school district summary accounting data for fiscal years 2002 through 2006.  |
| National 5-year averages—Classroom dollars and expenditures by function                   | Auditor General staff analysis of National Center for Education Statistics' (NCES) annual report, <i>Digest of Education Statistics</i> , and fiscal years 2000 through 2004 NCES Common Core of Data [ <a href="http://nces.ed.gov/ccd/">http://nces.ed.gov/ccd/</a> ]. The national percentages have been relatively stable. For the most recent 5-year period that is available, fiscal years 2000 through 2004, 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 2006.   |

♦

Table 15 (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.                                       |
| ELL   | English Language Learner  |
| SEI   | Structured English Immersion  |

Figure 9: Map of Arizona Counties

