

## REPORT HIGHLIGHTS SPECIAL STUDY

### Subject

This is the seventh annual report addressing the percentage of dollars spent in Arizona's classrooms and the uses of Proposition 301 monies. Created by a voter-approved increase in the state sales tax, Proposition 301 monies provide schools with additional funds for specified purposes.

### Our Conclusion

In FY 2007, Arizona schools spent an average of 57.9 cents of each dollar in the classroom, continuing a 3-year slide. Arizona school districts' spending patterns over the past few years indicate districts are probably using Prop 301 monies to supplant other district monies. As a result, the gap between Arizona districts' "actual" and "potential" classroom dollar percentages continues to grow.



# 2008

February 2008

## Classroom Dollar Percentage

To determine the percentage of dollars spent in the classroom, we continue to use the U.S. Department of Education's National Center for Education Statistics' (NCES) definition for instruction spending. Use of this definition provides consistency in comparing Arizona's performance to the national average and other states' statistics.

### Classroom Dollars include:

- Teachers' and teachers' aides' salaries and benefits
- Instructional supplies
- Instructional aids (textbooks, software, etc.)
- Activities (field trips, athletics, etc.)

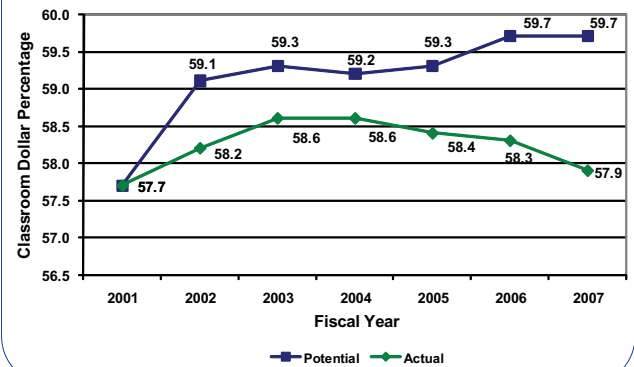
### Exclude:

- Administration
- Food service
- Support services (counselors, librarians, etc.)
- Transportation
- Building operation and maintenance

### School districts spent 57.9 percent of dollars in the classroom

In FY 2007, Arizona school districts' classroom dollar percentage was 57.9 percent, 0.4 percentage points lower than FY 2006. This continues a 3-year decline and leaves the State's percentage still more than 3 points below the national average of 61.2 percent. In FY 2001—before Prop 301—the classroom dollar percentage for Arizona districts was 57.7 percent.

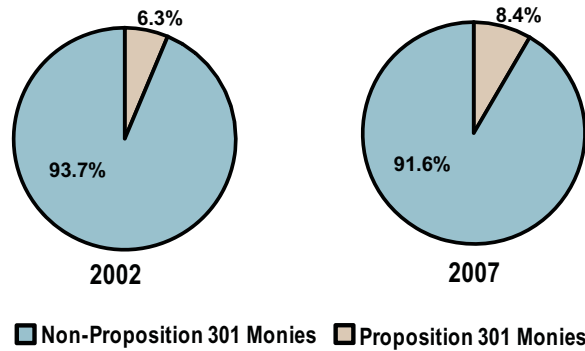
Potential and Actual Classroom Dollar Percentages



Spending patterns indicate that districts are probably using Prop 301 monies to supplant other district monies—Supplanting means that districts are using Prop 301 monies to replace, rather than add to, monies being spent in the classroom. Classroom spending increased from 57.7 to 58.2 percent with the first infusion of Prop 301 monies in FY 2002. However, after reaching a peak in FY 2003 and 2004, classroom spending has dropped in each of the last 3 years. As a result, the gap between Arizona districts' "actual" and "potential" classroom dollar percentages continues to grow. If districts had maintained their previous levels of spending from non-Prop 301 monies, the FY 2007 state-wide classroom dollar percentage could have been 59.7 percent.

Further, as shown below, a smaller percentage of classroom spending now comes from non-Prop 301 monies.

### Total Current Instructional Expenditures



Had districts continued to increase teachers' salaries with non-Prop 301 monies since FY 2001 at the same rate they did prior to FY 2001, the FY 2007 average teacher salary would have been more than \$2,300 higher.

Most districts', including the largest districts', percentages declined—91 of the 154 districts analyzed (59 percent) spent a lower percentage of dollars in the classroom in FY 2007 than they did in FY 2006. The State's 10 very large districts, accounting for 40 percent of total school district spending, significantly impact the State's classroom dollar percentage. In FY 2007, this group's combined percentage decreased 0.4 percentage points, identical to the State's decrease.

### 3 factors key in national analysis

When analyzing why Arizona's classroom dollar percentage is below the national average, three expenditure areas stand out: plant operation, student support services, and food services.

### Comparison of Districts' Spending to National Average by Function

Functional Area	U.S. 2005	Arizona	
		2005	2007
Classroom Dollars	61.2%	58.4%	57.9%
Plant Operation and Maintenance	9.6	11.4	11.3
Administration	11.0	9.5	9.5
Student Support Services	5.2	7.0	7.3
Instructional Support Services	4.8	4.6	4.8
Food Service	3.9	4.8	4.7
Transportation	4.1	4.1	4.3
Other Noninstructional Services	0.2	0.2	0.2

Districts spent more on plant operations than the national averages, due largely to higher supply costs, which includes energy.

Student support services include counselors and health-related services. Arizona districts employ a higher ratio of student support service employees than the national average—possibly due to Arizona's higher percentage of at-risk students.

Districts' higher food service costs may be related to higher-than-average participation in the National School Lunch Program. Because a higher percentage of eligible students eat school lunches, Arizona may serve more meals per student than other states on average, increasing costs.

Once again, these 3 higher-cost areas more than offset Arizona districts' lower administrative costs of 9.5 percent compared to the 11.0 percent national average.

### Key factors in in-state analysis

**Higher classroom spending**—In comparing districts within Arizona, generally the more students a district has, the higher its classroom dollar percentage. This may occur because a larger district can spread noninstructional costs, such as the cost of operating a gymnasium, over more students, leaving more dollars to spend in the classroom.

**Lower classroom spending**—High costs for plant operations, administration, transportation, and student support are the most significant factors associated with lower classroom dollar percentages. Districts that spent the most per pupil in these areas had these characteristics:

#### Plant operation and maintenance

- Located at higher elevations with colder temperatures
- Operate and maintain older buildings
- Serve more high school students
- Provide more building space per pupil

### Administrative costs

- Serve fewer students
- More administrative staff per student
- More district-level positions

### Transportation costs

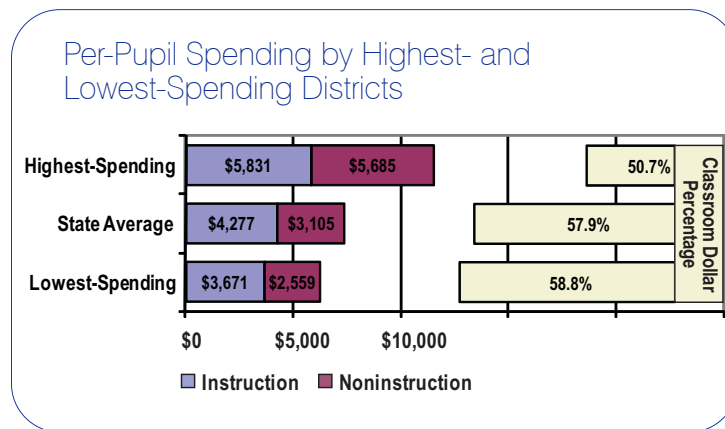
- Transport students farther
- Transport higher percentage of students

### Student support

- Serve more at-risk students
- Employ more guidance counselors and social workers
- Serve more high school students

## Higher total spending does not equate to higher classroom percentages

In Arizona, higher per-pupil spending does not equate to higher classroom dollar percentages. In fact, the highest-



spending districts averaged only 50.7 percent of dollars in the classroom compared to 58.8 percent averaged by the lowest-spending districts.

## How Districts Spent Proposition 301 Monies

Statutes establish a formula, based primarily on the number of students, for determining how much Proposition 301 monies each district receives and provide direction on how the monies may be used. Districts are required to direct 20 percent of the monies to increasing teacher base pay and 40 percent to performance pay. The remaining 40 percent may be used for six purposes specified in law.

In FY 2007, districts received about \$366 million of Prop 301 monies—an increase of \$25 million over FY 2006.

**Over 93 percent spent in the classroom**—Districts spent 93.5 percent of these monies for instruction purposes such as teachers' salaries and benefits. Prop 301 pay increases averaged 11 percent, or \$4,016. On a district basis, increases ranged from about 2 to 22 percent of teachers' salaries, or from \$924 to \$8,203 per eligible employee. The wide variance

is primarily because money is distributed to districts on a per-pupil basis. Hence, districts with fewer students receive smaller amounts.

The State's average teacher salary increased from \$37,176 in 2001 to \$43,833 in 2007. The majority of the increase occurred in FY 2006 with average state-wide salary increasing only \$866 in FY 2007. As indicated above, supplanting is probably affecting dollars spent in the classroom.

**Librarians, counselors, and others received pay**—About one-half of the districts used some Prop 301 monies to provide salary increases for positions other than teachers such as librarians, counselors, speech pathologists, and instructional aides.

**Performance pay based on a variety of goals**—40 percent of Prop 301 money is allocated to performance pay. Although

most districts included goals related to student achievement, teacher development, and parent/student satisfaction, districts varied in the goals they established. However, almost all districts reported accomplishing their performance pay goals.

**Use of Menu Monies**—Besides increasing teacher salaries, districts primarily spent menu monies for class size reduction, AIMS intervention, and teacher development.

**Unallowable expenditures**—Although auditors have identified unallowable expenditures of Prop 301 menu monies in prior fiscal years, none were noted for fiscal year 2007. However, two school district performance audits conducted during fiscal year 2007 identified districts

that used Prop 301 monies to supplant other district monies, which is prohibited by statute. One elementary school district used Prop 301 money to pay the salaries of 4 employees previously paid using other district monies. In another instance, a unified district may have used at least \$1 million in Prop 301 monies to supplant or pay costs that previously would have been paid by other monies.

### A district-by-district perspective

Our full report includes:

- A listing of districts grouped by size and ranked by percentage of dollars spent in the classroom.
- A data sheet for each district, presented in alphabetical order, including classroom dollars and Proposition 301 spending and other comparative data.

#### TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling  
**(602) 553-0333**



or by visiting our Web site at:  
[www.azauditor.gov](http://www.azauditor.gov)

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Number of Districts with Performance Pay Goals, by Category FY 2007

Goal Category	Number of Districts		Percentage Accomplishing Goals
	Setting Goals	Accomplishing Goals	
Student Achievement	143	138	97%
Teacher Development	115	111	97
Parent/Student Satisfaction	88	86	98
Teacher Evaluation	73	72	99
Student Attendance	71	70	99
Leadership	46	45	98
Tutoring	42	41	98
Teacher Attendance	38	36	95
Dropout/Graduation Rates	23	22	96
Other	29	27	93%