

A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Special Study

Arizona Public School Districts' Dollars Spent in the Classroom Fiscal Year 2004

FEBRUARY • 2005



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

The Joint Legislative Audit Committee

Senator **Robert Blendu**, Chair

Senator **Carolyn Allen**

Senator **Gabrielle Giffords**

Senator **John Huppenthal**

Senator **Harry Mitchell**

Senator **Ken Bennett** (*ex-officio*)

Representative **Laura Knaperek**, Vice Chair

Representative **Tom Boone**

Representative **Ted Downing**

Representative **Pete Rios**

Representative **Steve Yarbrough**

Representative **Jim Weiers** (*ex-officio*)

Audit Staff

Sharron Walker, Director and Contact Person

Ross Ehrick, Manager

Natalie Pflieger, Manager

Ken Alexander

Brit Baxter

Sean Borzea

Dale Eske

Vicki Hunter

Tara Lennon

Mike Quinlan

David Winans

Copies of the Auditor General's reports are free.

You may request them by contacting us at:

Office of the Auditor General

2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.auditorgen.state.az.us



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 28, 2005

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 2004*. 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, the education sales tax that voters approved in November 2000. To provide a quick summary for your convenience, I am also including a copy of the Report Highlights.

In fiscal year 2004, Arizona's state-wide percentage of dollars spent in the classroom remained at 58.6 percent, the same as fiscal year 2003. This is nearly 3 percentage points behind both the national average of 61.5 percent reported by the National Center for Education Statistics, and the 61.3 percent average for the ten states with per-pupil spending similar to Arizona's. State-wide, Arizona school districts spend a higher percentage of their dollars on plant costs and student support services than the national average, and a lower percentage on administrative costs.

The primary factor associated with individual districts' higher classroom dollar percentages continues to be larger student populations. Higher plant, administrative, 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. Some factors affecting noninstructional spending are within a district's control, such as efficiency of operations, while others are not, such as rural or urban location.

Districts continued to use Proposition 301 monies almost solely for instructional staff's salaries and benefits. This complies with the requirement that districts use at least 60 percent of the monies for teacher compensation. Based on district-reported data, 10 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, 2005.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom during fiscal year 2004. 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 fourth 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 3), includes current expenditures for classroom personnel, instructional supplies, instructional aids, certain tuition payments, field trips, athletics, and cocurricular activities. This definition has been applied by the 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 21)

In fiscal year 2004, Arizona's state-wide percentage of dollars spent in the classroom remained at 58.6 percent, the same as fiscal year 2003. Arizona's classroom spending continues to lag nearly 3 percentage points behind the national average of 61.5 percent, as reported by the NCES.

The same disparity is also evident when Arizona's expenditures are compared with those states that are closest to Arizona in per-pupil spending. Based on NCES-reported data, the ten most comparable states spent an average of 61.3 percent of their current expenditures on instruction. Thus, Arizona is behind both the national average and its "peer states" in directing dollars into the classroom.

Although the addition of Proposition 301 monies has helped raise the state-wide average to 58.6 percent, the average could have been higher still. If districts had spent their fiscal year 2004 non-Proposition 301 monies in the same proportions as they did prior to receiving Proposition 301 monies, the additional monies would have raised the state-wide average to 59.2 percent. However, many districts now spend proportionately less of their other monies in the classroom than they did before Proposition 301.

In late February 2003, the Governor's Office requested school districts to submit plans on how they would move 5 cents more of every dollar into the classroom to improve Arizona's classroom dollar percentage. Therefore, fiscal year 2004 was the first full year for districts to implement their plans. The plans and how they were implemented differed significantly between districts that increased their classroom dollar percentages and those that decreased. The districts with the largest increases had developed plans with well-defined actions and made progress toward the goal. The districts with the largest decreases had developed less-specific plans that often included actions that would not have improved their classroom dollar percentages even if implemented.

Excluding certain special-purpose districts, classroom dollar percentages for individual districts ranged from 35 to 83 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 with fewer than 200 students. Because of their size, these districts tend to either not provide some nonclassroom services such as administration, transportation, or food services, or have very high costs relative to their size to do so.

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, and transportation costs were the most significant factors associated with lower classroom dollar percentages.

State-wide, Arizona school districts continue to allocate a lower percentage of their dollars to administration costs than the national average and allocate a higher percentage of their dollars to plant costs and student support services.

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 23 through 27)

Districts spent \$236 million from their Classroom Site Funds during fiscal year 2004 and continued to use the monies almost solely for teacher compensation. This complies with the requirement that at least 60 percent of the monies be used for teacher compensation. According to salary data collected by the Arizona Department of Education, the State's average teacher salary increased from \$37,176 in fiscal year 2001 to \$38,534 in fiscal year 2004. Based on district-reported data, teacher salary increases attributable to Proposition 301 monies in fiscal year 2004 averaged 10 percent, but ranged from 1 to 20 percent. The amounts attributable to Proposition 301 monies ranged from \$500 to \$6,700 per eligible employee, on average.

While most monies were directly used for teacher compensation increases, districts also used some of their monies for the other purposes authorized under Proposition 301. This was often accomplished by paying teachers for activities related to these other purposes, such as teacher development and AIMS intervention.

Appendix (see pages a-1 through a-223)

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.

TABLE OF CONTENTS



Introduction & Background	1
Chapter 1: Dollars in the classroom	7
Arizona spent 58.6 cents of every dollar in the classroom, unchanged from the previous year and lower than the national average	7
Nonclassroom spending is higher for plant costs and student support services, but lower for administration	9
Most Arizona districts close to state average for classroom spending percentage	10
Despite districts' plans to increase classroom spending, over half spent a smaller percentage of dollars in the classroom	11
Factors associated with higher or lower classroom spending	12
Higher per-pupil spending does not equate to higher classroom dollar percentages	15
Individual district percentages	18
Chapter 2: Districts' uses of Proposition 301 monies	23
Background	23
Districts continued to spend Proposition 301 monies largely for teacher pay	25
Individual district results	27
Appendix	a-1

♦ continued



TABLE OF CONTENTS

Tables:

1	Classroom Dollars Definition	3
2	Districts Excluded from Analysis as Noted Fiscal Year 2004	6
3	Comparison of NCES-Reported Expenditures for Ten Lowest- Spending States, Excluding Arizona Fiscal Year 2002	8
4	Comparison of Arizona Districts' Spending to National and Peer Group Averages, by Functional Area Fiscal Years 2001 and 2004	9
5	Districts Grouped by Percentage of Dollars Spent in the Classroom Fiscal Year 2004	10
6	Average Classroom Dollar Percentages of Districts Grouped by Size Fiscal Year 2004	12
7	Districts Grouped by Size (Average Daily Membership) and Ranked by Percentage of Dollars Spent in the Classroom Fiscal Year 2004	19
8	Proposition 301 Distributions in Statutory Priority Order Fiscal Years 2003 and 2004 Unaudited	24
9	Proposition 301 Expenditures by Function Fiscal Year 2004	25
10	Number of Districts Paying Increases by Position and Fund Fiscal Year 2004	26
11	Number of Districts with Performance Pay Goals by Category Fiscal Year 2004	26
12	Individual District Page Source Information	a-1

continued ♦

TABLE OF CONTENTS



Figures:

1	Average Percentage of Each Dollar Spent on Instruction Fiscal Years 1997 through 2004	2
2	Current Expenditures by Functional Area Fiscal Year 2004	7
3	Classroom Dollar Percentages by Plant Cost Groups Fiscal Year 2004	13
4	Classroom Dollar Percentages by Administrative Cost Groups Fiscal Year 2004	14
5	Classroom Dollar Percentages by Transportation Cost Groups Fiscal Year 2004	15
6	Classroom Dollar Percentages by Total Current Per-Pupil Expenditure Groups Fiscal Year 2004	16
7	Per-Pupil Spending on Certain Noninstructional Cost Areas by Low- and High-Spending Districts and State Average Fiscal Year 2004	17

♦ concluded

INTRODUCTION & BACKGROUND

The Office of the Auditor General has, for the fourth 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

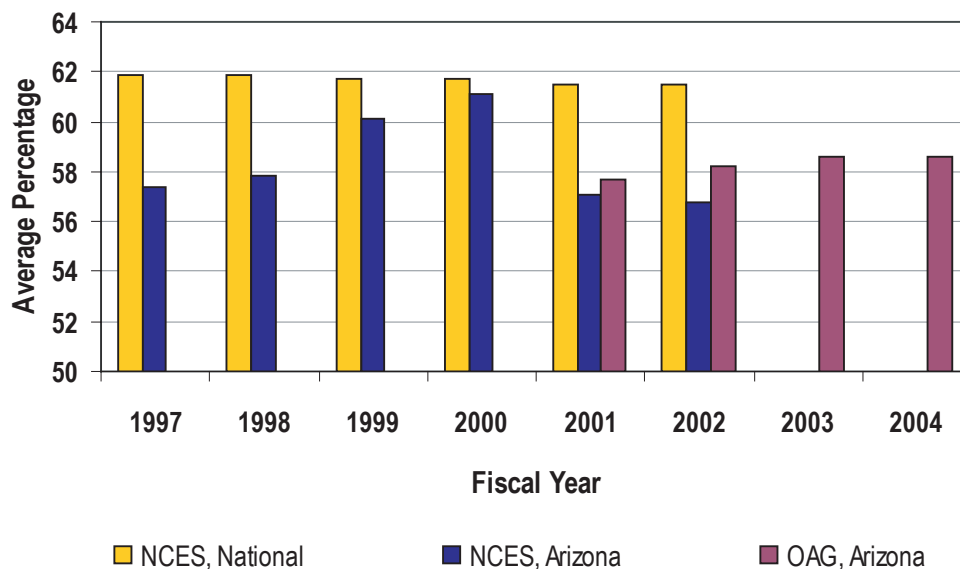
The definition of classroom dollars used in this report is based on the same definition developed by the U.S. Department of Education's National Center for Education Statistics (NCES) for "instruction." This definition is described in Table 1 (see page 3) and includes current expenditures for classroom personnel, instructional supplies, instructional aids, certain tuition payments, field trips, athletics, and cocurricular 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 2002. 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.

The drop in Arizona's classroom dollar percentage between fiscal year 2000 and 2001, as shown in Figure 1 on page 2, occurs because prior to fiscal year 2001, the

district-level annual financial reports used to provide Arizona's data did not collect sufficient detail to allow an accurate calculation.

Figure 1 Average Percentage of Each Dollar Spent on Instruction
Fiscal Years 1997 through 2004



Source: Auditor General staff analysis of National Center for Education Statistics (NCES) Web site, NCES's annual report, Digest of Education Statistics, and school districts' Annual Financial Reports and summary accounting data.

Scope and methodology

To analyze the most current expenditure and budget data available, auditors obtained fiscal year 2004 district Annual Financial Reports (AFRs) and budgets from the Arizona Department of Education. In addition, 236 of the State's 237 school districts provided auditors with fiscal year 2004 summary accounting data, and 219 school districts submitted summaries of their Classroom Site Fund expenditures and program results.¹ 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 narrative information about the uses of Classroom Site Fund monies 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 Proposition 301 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

¹ One school district's accounting data was found to be unreliable. Since this district filed an Annual Financial Report, its classroom dollar percentage was calculated using that data. However, due to the unreliability of its accounting data, specific functional analysis of classroom spending factors did not include this district.

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 cocurricular 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*.

counts. These other types of data were also reviewed for reasonableness, but the various source records were not audited.

Auditors analyzed both individual and grouped districts' classroom dollar percentages and characteristics, such as district size. After using statistical and correlational analyses to identify factors that were significantly associated with individual district percentages, auditors analyzed these factors for their relationship to grouped district percentages and to results that were previously reported for fiscal years 2001 through 2003. District size categories were revised this year to replace the super large category with a very large category. The super large category, for districts with more than 39,999 students, encompassed only two districts, and they had very disparate classroom dollar percentages. Given recent student population growth at many districts, the new very large category, encompassing the ten districts with more than 19,999 students, provides a more representative group for analyzing the effect of district size on classroom dollar percentages. In addition, the analysis examined the classroom dollar percentages with and without the addition of Classroom Site Fund expenditures to determine the effect of Proposition 301.

Auditors 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 237 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 was based on 156 districts, and the analysis of Proposition 301 information was based on 219 districts. The specific exclusions and reasons for excluding are as follows:

- 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 7 on page 21.
- The 51 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 7 on pages 20 and 21 as “very small.”

- Additionally, one small school district was unable to provide reliable detailed accounting data and, therefore, was also excluded from analysis of factors affecting classroom dollar percentages. However, its classroom dollars percentage was calculated using its summary data. This district is listed in Table 2 (see page 6).
- Only 221 districts received Proposition 301 monies for fiscal year 2004. Two of these districts did not submit the statutorily required report of Proposition 301 results. These districts are included in the expenditure analysis where possible, but lack specific program results. The 16 districts not receiving fiscal year 2004 Proposition 301 monies included the 10 transporting districts, and 6 of the 10 joint technological education districts. These districts are listed in Table 2 (see 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 staff of the Arizona public school districts for their cooperation and assistance during this study.

Table 2 Districts Excluded from Analysis as Noted
Fiscal Year 2004

Districts by Type	Excluded from Analysis of	
	State-wide Classroom Dollar Factors	Proposition 301
Accommodation Districts (9) Listed on page 21	X	
Joint Technological Education Districts (10)		
Central Arizona Valley Institute of Technology	X	
Cobre Valley Institute of Technology	X	X
Cochise Technology District	X	X
Coconino Association for Vocation Industry and Technology	X	X
East Valley Institute of Technology	X	
Gila Institute for Technology	X	
Northeast Arizona Technological Institute of Vocational Education	X	X
Northern Arizona Vocational Institute of Technology	X	
Valley Academy for Career and Technology Education	X	X
Western Maricopa Education Center	X	X
Very Small Districts (51) Listed on pages 20 and 21	X	
Transporting Districts (10)		
Champie Elementary	X	X
Chevelon Butte Elementary	X	X
Eagle Elementary	X	X
Empire Elementary	X	X
Forrest Elementary	X	X
Klondyke Elementary	X	X
Redington Elementary	X	X
Rucker Elementary	X	X
Walnut Grove Elementary	X	X
Williamson Valley Elementary	X	X
District with Unreliable or Incomplete Accounting Data (1) Grand Canyon Unified	X	

Source: Auditor General staff analysis of fiscal year 2004 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

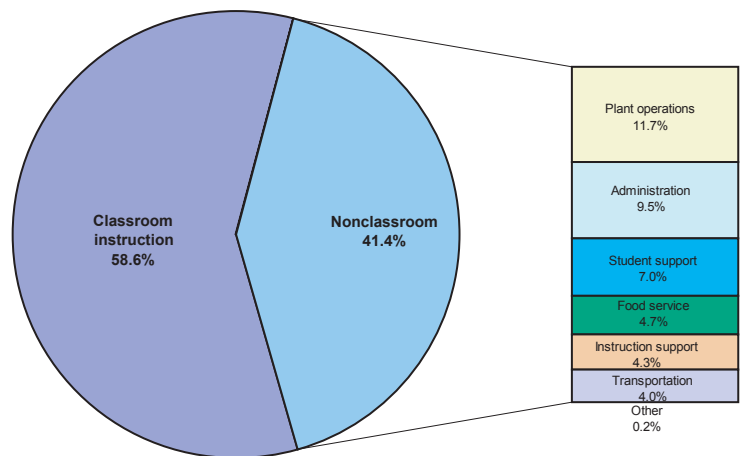
Dollars in the classroom

Arizona spent 58.6 cents of every dollar in the classroom, unchanged from the previous year and lower than the national average

As shown in Figure 2, in fiscal year 2004, Arizona school districts spent, on average, 58.6 cents of each dollar in their classrooms, the same as the previous year. In fiscal year 2001, before Proposition 301 monies were available, the classroom dollar percentage for Arizona districts was 57.7 percent. After a 3-year increase of approximately \$656 million in expenditures of Proposition 301 monies, the state classroom dollar percentage has increased by almost 1 percentage point, but still lags about 3 points behind the national average. In the most recent national data available, NCES reported the national average for fiscal year 2002 spending on instruction as 61.5 percent, also the same as the previous year. The national average has remained between 61 and 62 percent for at least the last 10 years.

Although the addition of Proposition 301 monies has helped to raise the state-wide average to 58.6 percent, the average could have been higher still. If districts had spent their fiscal year 2004 non-Proposition 301 monies in the same

Figure 2 Current Expenditures by Functional Area Fiscal Year 2004



Source: Auditor General staff analysis of fiscal year 2004 summary accounting data provided by individual school districts and School District Annual Financial Reports provided by the Arizona Department of Education.

proportions as they did in fiscal year 2001, the additional Proposition 301 monies would have raised the state-wide average to 59.2 percent. However, many districts spent proportionately less of their other monies in the classroom.

As similarly reported last year, the disparity between Arizona's classroom dollar percentage and the national average is also evident when Arizona's expenditures are compared with those states that are closest to Arizona in per-pupil spending. In fiscal year 2002, Arizona spent \$5,843 per pupil, ranking 47th in per-pupil total current expenditures. When compared to the ten other lowest-spending states, which spent an average of \$5,947 per pupil, Arizona's classroom dollar percentage is still below the 61.3 percent average for this peer group, as shown in Table 3.

Table 3 Comparison of NCES-Reported Expenditures for Ten Lowest-Spending States, Excluding Arizona
Fiscal Year 2002

State	Total Current Expenditures Per Pupil	Current Instruction Expenditures Per Pupil	Classroom Dollars Percentage
South Dakota	\$6,424	\$3,803	59.2%
Arkansas	6,276	3,867	61.6
Oklahoma	6,229	3,600	57.8
Florida	6,213	3,664	59.0
Nevada	6,079	3,794	62.4
Alabama	6,029	3,692	61.2
Idaho	6,011	3,672	61.1
Tennessee	5,959	3,878	65.1
Mississippi	5,354	3,224	60.2
Utah	4,900	3,197	65.2
Average of 10 lowest states' averages (2002)	\$5,947	\$3,639	61.3%
Arizona (2002)	\$5,843	\$3,402	58.2%
Arizona (2004)	\$6,355	\$3,722	58.6%

Source: Auditor General staff analysis of fiscal years 2002 and 2004 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts and NCES "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2001-02," June 2004.

Two of the ten states in this group changed from fiscal year 2001 to 2002. Total current expenditures per pupil increased for all of these states, but some more than others. Kentucky and Louisiana made sufficient gains in per-pupil spending to move out of the ten lowest-spending states group, while Florida and South Dakota moved into the group.

Nonclassroom spending is higher for plant costs and student support services, but lower for administration

State-wide, about 41 percent of districts' current dollars are not spent in the classroom. As shown in Table 4, compared with both the national and ten-state peer group averages, Arizona districts spend a larger portion of their current dollars on plant operation and maintenance and student support services, and spend less on administration. The peer group's spending percentages for the various functional areas closely mirror the national averages. The national data used for the analysis is fiscal year 2001, the most recent available from NCES summarizing functional expenditures. Arizona's 2001 data from the Auditor General's fiscal year 2001 Dollars Spent in the Classroom report is also shown for comparison purposes.

Plant operation and maintenance costs—Arizona school districts allocate a significantly larger percentage of their dollars to plant operation and maintenance costs than the national and ten-state peer group averages. Plant operation and maintenance includes expenditures for the care and upkeep of buildings, grounds, and equipment; utilities; and security. For fiscal year 2004, this category accounted for 11.7 percent of current expenditures in Arizona school districts, which is about 2 percentage points higher than the national average and the ten-state peer group averages.

Student support services—Arizona school districts also allocate a significantly larger percentage of their dollars to student support services than the national and ten-state peer group averages. Student support services include expenditures associated with student attendance, guidance, and health. This category accounted for 7 percent of Arizona school districts' fiscal year 2004 current expenditures, 2 percentage points higher than the national average, and 2.6 percentage points higher than the peer group average.

Table 4 Comparison of Arizona Districts' Spending to National and Peer Group Averages, by Functional Area
Fiscal Years 2001 and 2004

Functional Area	U.S. 2001	10-State Peer Group 2001	Arizona	
			2001	2004
Classroom Dollars	61.5%	61.5%	57.7%	58.6%
Plant Operation and Maintenance	9.7	9.5	12.5	11.7
Administration	10.9	10.7	10.5	9.5
Student Support Services	5.0	4.4	6.4	7.0
Instructional Staff Support	4.6	4.2	4.2	4.3
Food Service	4.0	5.4	4.8	4.7
Transportation	4.1	4.1	3.6	4.0
Other Noninstructional Services	0.2	0.2	0.3	0.2

Source: NCES data from the *Digest of Education Statistics 2003* and Auditor General staff analysis of fiscal years 2001 and 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Administrative costs—One area in which Arizona school districts allocate a smaller percentage of their dollars than the national and ten-state peer group averages is administration. Administrative costs are associated with a district's governing board's, superintendent's, and school principals' offices, and its business and central support services. Although similar to the national average in fiscal year 2001, Arizona school districts' administrative costs have continued to decline during the past few years. In fiscal year 2004, they consumed only 9.5 percent of each current dollar, 1.4 percentage points less than the national average, and 1.2 points less than the peer group average.

Most Arizona districts close to state average for classroom spending percentage

For the 208 elementary, union high, and unified districts for which a percentage was calculated, individual district classroom dollar percentages ranged from 35 to 83 percent in fiscal year 2004. However, nearly two-thirds, or 135 districts, are within 5 percentage points of the state average, and more than one-quarter, or 59 districts, are within 2 percentage points. Table 5 groups the districts in comparison to the state-wide average.

Table 5 Districts Grouped by Percentage of Dollars Spent in the Classroom
Fiscal Year 2004

Compared to State Average	Percentage Range	Number of districts
More than 5% above	> 63.6%	12
2.1% to 5% above	60.7-63.6%	24
2% above to 2% below	56.6-60.6%	59
2.1 to 5% below	53.6-56.5%	52
5.1 to 10% below	48.6-53.5%	42
More than 10% below	< 48.6%	19

Source: Auditor General staff analysis of fiscal year 2004 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 include the highest (83 percent) and lowest (35 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 at all. 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 \$24 and \$7,238 per pupil, and their food service costs ranged between \$0 and \$2,308 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 0.0 percent to 62.4 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.

Despite districts' plans to increase classroom spending, over half 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, 86 districts (55 percent of those analyzed) spent a smaller percentage of dollars in the classroom in fiscal year 2004. Districts with declining classroom dollar percentages typically increased their student support services and plant operation costs, while districts increasing their classroom dollar percentages typically spent a smaller proportion on administrative and plant operation costs. For the 51 districts increasing or decreasing their classroom dollar percentages by more than 2 percentage points, changes in plant costs were the primary factor.

In late February 2003, the Governor's Office requested school districts to submit plans on how they would move 5 cents of every dollar into the classroom to improve Arizona's classroom dollar percentage. Fiscal year 2004 was the first full year for districts to implement those plans. The plans and how they were implemented differed significantly between the 29 districts with the greatest declines in classroom dollar percentages and the 22 districts with the greatest increases in classroom dollar percentages.

The districts increasing their classroom spending percentages generally had clearer, better defined action plans containing steps that were more likely to be effective in increasing their classroom dollar percentage. These included actions such as eliminating certain administrative positions or hiring additional teachers. These districts also more often implemented their planned actions. The plans of districts with declining classroom spending percentages were less specific and often would not have improved their classroom dollar percentages even if implemented. The more specific of these plans included actions such as eliminating a teaching position or a class, which would decrease classroom spending, or hiring a nurse, which would increase student support services rather than classroom expenditures. Additionally, these decreasing-percentage districts did not appear to implement their plans as often. For example, many that had planned actions to reduce administrative costs or utilities actually had increased administrative costs or utilities.

Factors associated with higher or lower classroom spending

Certain factors were associated with higher or lower percentages of classroom spending. 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 classroom spending. In fiscal year 2004, the factors with the strongest negative relationships are plant operation and maintenance, administration, 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 spending—

Generally, the more students a district has, the higher the percentage it spends in the classroom. As shown in Table 6, the classroom dollar percentage increases as the number of students in a district increases. This may occur because larger districts can spread fixed noninstructional costs over more students, leaving additional dollars to spend in the classroom. This trend was similarly evident in previous fiscal years' analyses.

Higher plant costs associated with lower classroom spending—As

per-pupil spending on plant operation and maintenance increases, the classroom

dollar percentage decreases, on average. Auditors ranked districts by per-pupil plant costs and then divided this ranking into five equal-numbered groups, with Group 1 having the lowest per-pupil plant costs and Group 5 having the highest. Figure 3, on page 13, shows the average classroom dollar percentages for these five groups. The group with the lowest per-pupil plant costs (averaging \$564) had the highest classroom dollar percentage (59.5 percent), while the group with the highest per-

pupil plant costs (averaging \$1,352) had the lowest classroom dollar percentage (51.7 percent).

Analysis of the districts in the lowest and highest per-pupil plant groups showed these two groups differed in a number of other characteristics. Compared to districts in the lowest per-pupil cost group, districts in the highest-cost group are:

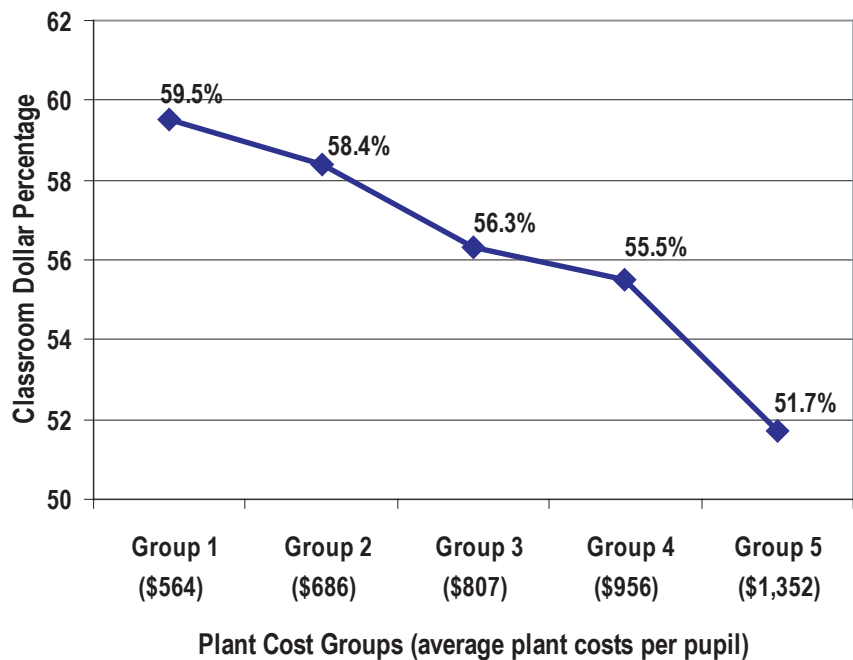
Table 6 Average Classroom Dollar Percentages of Districts Grouped by Size
Fiscal Year 2004

District Size	Number of Districts	Number of Students	Average Classroom Dollar Percentage
Very Large	10	20,000 or more	61.1%
Large	33	5,000-19,999	58.2%
Medium	76	600-4,999	55.5%
Small	38	200-599	54.7%

Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

- **Serving smaller student populations**—42 percent of the high-cost districts are small, serving between 200 and 599 students, compared to 13 percent of the low-cost districts.
- **Located at higher elevations with colder temperatures**—The average elevation for high-cost districts was 4,200 feet, compared to the low-cost districts' average of 1,757 feet. The 62-degree average annual temperature for these high-cost districts was 10 degrees cooler than the low-cost districts' 72-degree average.

Figure 3 Classroom Dollar Percentages by Plant Cost Groups Fiscal Year 2004



Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

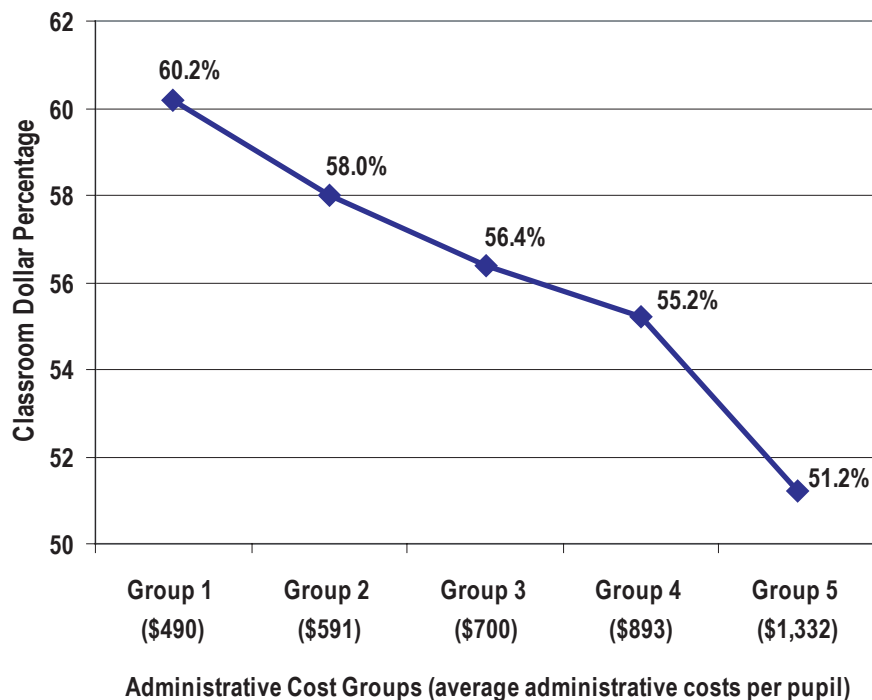
- **Operating and maintaining older buildings**—High-cost districts' buildings were 4 years (22 percent) older, on average. For this comparison, the age of each building was weighted by its proportion of the district's total square footage.
- **Serving more high school students**—90 percent of the high-cost districts were high school or unified, whereas 58 percent of the low-cost districts were elementary. This is likely 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**—High-cost districts provided twice the square footage per pupil (258 square feet) as the low-cost districts (129 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.

Higher administrative costs associated with lower classroom dollar percentages—As per pupil spending on administration increases, the classroom dollar percentage decreases, on average. Auditors ranked districts by per-pupil

costs for administration and then divided this ranking into five equal-numbered groups, with Group 1 having the lowest per-pupil administrative costs and Group 5 having the highest. Figure 4 shows the average classroom dollar percentages for these five groups. The group with the lowest per-pupil administrative costs (averaging \$490) had the highest classroom dollar percentage (60.2 percent), while

the group with the highest per-pupil administrative costs (averaging \$1,332) had the lowest classroom dollar percentage (51.2 percent).

Figure 4 Classroom Dollar Percentages by Administrative Cost Groups Fiscal Year 2004



Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

As with plant costs, the groups with the highest and lowest per-pupil administrative costs also differed in certain characteristics, although the list is shorter. Compared to districts in the lowest per-pupil administrative cost group, districts in the highest cost group are:

- **Serving smaller student populations**—68 percent of the high-cost districts are small, serving between 200 and 599 students, compared to 3 percent of the low-cost districts.
- **Higher staffing level**—On average, the high-cost districts served only 44 students per administrative position, while the low-cost districts served 77 students per administrative position.²

Higher transportation costs associated with lower classroom dollar percentages—As per-pupil spending on transportation increases, the classroom dollar percentage decreases, on average. Auditors ranked districts by per-pupil costs for transportation and then divided this ranking into five equal-numbered groups, with Group 1 having the lowest per-pupil transportation costs and Group 5 having the highest. Figure 5, on page 15, shows the average classroom dollar percentages for these five groups. The group with the lowest per-pupil transportation costs (averaging \$153) had the highest classroom dollar percentage (59.4 percent), while the group with the highest per-pupil transportation costs (averaging \$665) had the lowest classroom dollar percentage (51.5 percent).

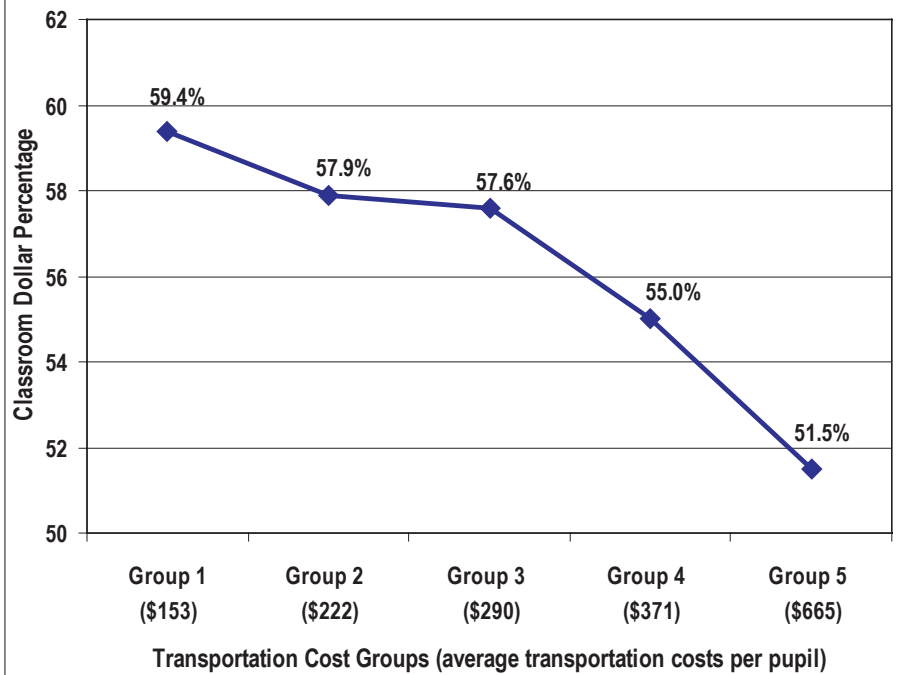
As with plant and administrative costs, the groups with the highest and lowest per-pupil transportation costs also differed in certain characteristics. Compared to

² Administrative positions are based on a “full-time equivalent” calculation.

districts in the lowest per-pupil cost group, districts in the highest-cost group are:

- **Serving smaller student populations**—55 percent of the high-cost districts are small, compared to 19 percent of the low-cost districts.
- **Transporting students farther**—On average, the high-cost districts transport each rider 432 miles per year, over two and a-half times farther than the low-cost districts, which averaged 163 miles per year.
- **Transporting higher percentage of student population**—The high-cost districts transport, on average, 89 percent of the student population, compared to 40 percent for low-cost districts.

Figure 5 Classroom Dollar Percentages by Transportation Cost Groups Fiscal Year 2004



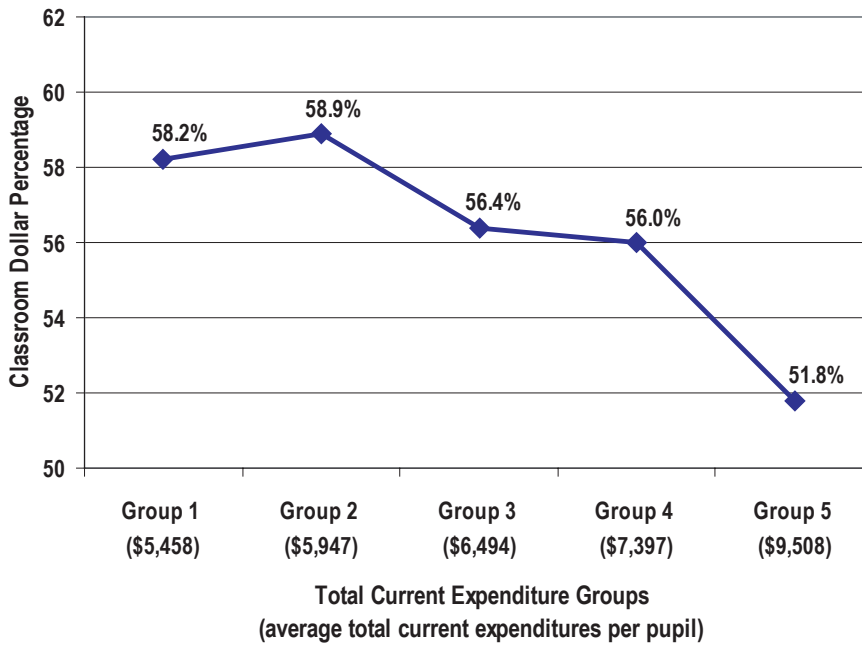
Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

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 allocate a greater percentage of their total resources to administration, transportation, and plant operation and maintenance. Higher per-pupil spending may be related to lower classroom dollar percentages for several reasons, including costs outside the district's control, inefficient operation of noninstructional areas, and the availability of additional funding.

High-spending districts spend a lower percentage of dollars in the classroom—As total current expenditures per pupil increase, the dollars per pupil spent in the classroom also increases, on average. However, the proportion of available resources being spent in the classroom decreases, on average. Figure 6 on page 16 shows the average classroom dollar percentages for groups of districts

Figure 6 Classroom Dollar Percentages by Total Current Per-Pupil Expenditure Groups
Fiscal Year 2004



Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

ranked by their per-pupil total current expenditures and then sorted into five equal-numbered groups. As shown, the group with the highest total per-pupil spending (averaging \$9,508) had the lowest classroom dollar percentage (51.8 percent). While the high-spending districts spend significantly more in total, the additional monies flow into the classroom at a lower rate.

High-spending districts spend significantly more of their resources outside the classroom—As seen in Figure 7 on page 17, while the lowest-spending districts spend non-instructional dollars at rates similar to the state-wide averages, the highest-spending districts spend significantly more on plant operations and maintenance, administration, and transportation. Specifically, when compared to the lowest spending districts, the highest spending districts spent, on average, \$664 more per pupil on plant costs, \$623 more per pupil on administration,

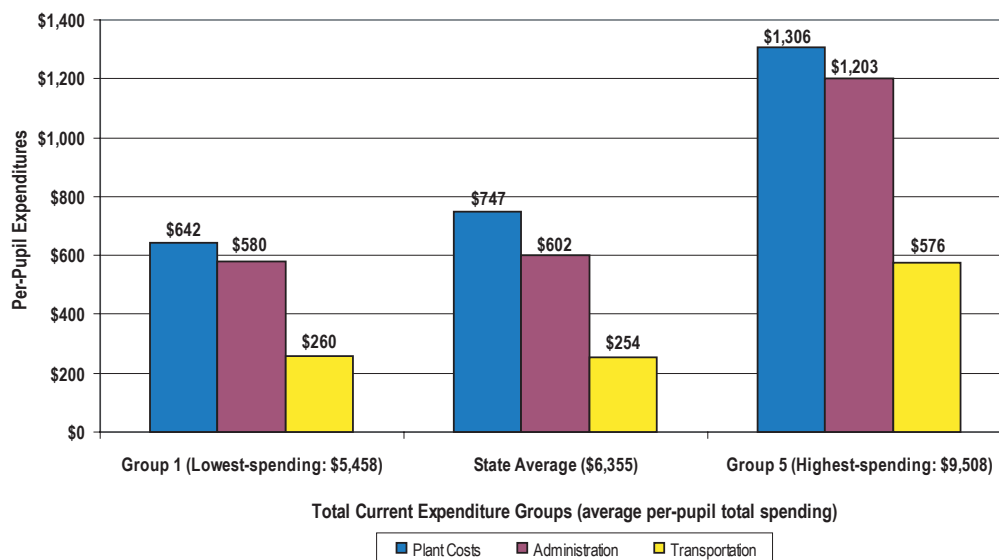
and \$316 more per pupil on transportation; more than twice as much per pupil in each category.

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 57 percent of the highest-spending districts operate in rural locations, while only 13 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, a factor associated with higher transportation costs. Also, 45 percent of the highest-spending districts are small, whereas only 6 percent of the lowest-spending districts are.³ Smaller districts have fewer students over which to spread their fixed costs. In addition, the highest-spending districts experienced a 3.9 percent decline in student population from fiscal year 2003, compared to a 12.1 percent increase for the

3 For the total 156 districts analyzed, 33 percent are in rural locations and 24 percent are small.

Figure 7 Per-Pupil Spending on Certain Noninstructional Cost Areas by Low- and High-Spending Districts and State Average Fiscal Year 2004



Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

lowest-spending group, 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 audits of individual school districts, can result in higher expenditures outside the classroom, and thus, lower classroom dollar percentages. In fiscal year 2004, auditors identified the following types of inefficient operations that may have contributed to lower classroom dollar percentages: high administrative staffing levels, inefficient bus routes resulting in low bus capacity utilization, and contracted operations not properly monitored.
- Additional revenue sources**—Higher-spending districts have more total revenues to spend. How these additional revenues are spent is within district control to varying degrees depending on the revenue source.

On average, districts with high per-pupil total expenditures receive more federal and state grants, federal impact aid, budget overrides, small school budget adjustments, and/or rapid decline budget adjustments than lower-spending districts. The highest-spending districts spent over three times more per pupil from federal and state grants, and on average, increased their Maintenance and Operation Fund budget capacity by nearly 23 percent through desegregation,

federal impact aid, budget overrides, rapid decline adjustments, and/or small school adjustments. In contrast, none of the lowest-spending districts had desegregation or small school budget adjustments, and only one had a significant rapid decline adjustment. Also, none received significant additional monies through federal impact aid adjustments. Districts have significant control over whether monies from federal impact aid, budget overrides, small school budget adjustments, and rapid decline budget adjustments are spent in the classroom and less control over whether federal and state grants are spent in the classroom.

Additional Revenue Sources

Federal and State Grants—Monies provided above and beyond district basic funding that are generally provided for specific purposes.

Federal Impact Aid—Additional federal monies 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.

Budget Overrides—Allow districts, with voter approval, to increase their expenditure budgets by a specified amount.

Small School Budget Adjustment—Allows districts with very few students to increase their expenditure budgets.

- Grades K-8 with 125 or fewer students
- Grades 9-12 with 100 or fewer students

Rapid Decline Budget Adjustment—Allows districts experiencing at least a 5 percent decline in student population to increase their expenditure budgets by a specified amount.

Source: Auditor General staff summary of Uniform System of Financial Records for Arizona School Districts, Title 8 of the Elementary and Secondary Education Act of 1965.

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 7 (see pages 19 through 21) lists the fiscal year 2004 classroom dollar percentages for each of the 208 districts grouped by size, 9 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 227 (lowest).

Table 7 Districts Grouped by Size (Average Daily Membership) and Ranked by Percentage of Dollars Spent in the Classroom¹
Fiscal Year 2004

Very Large (20,000+)	Average = 61.1%	Large (Concl'd)	
Gilbert Unified School District	64.3%	Dysart Unified School District	55.3%
Scottsdale Unified School District	63.7%	Phoenix Elementary School District	55.3%
Chandler Unified School District	63.6%	Apache Junction Unified School District	55.2%
Mesa Unified School District	63.1%	Nogales Unified School District	54.7%
Deer Valley Unified School District	62.8%	Yuma Union High School District	53.5%
Paradise Valley Unified School District	61.8%		
Peoria Unified School District	61.5%	Medium (600-4,999)	Average = 55.5%
Washington Elementary School District	61.3%	Liberty Elementary School District	64.3%
Tucson Unified School District	55.0%	Avondale Elementary School District	64.1%
Phoenix Union High School District	54.3%	Douglas Unified School District	63.6%
		Blue Ridge Unified School District	63.1%
Large (5,000-19,999)	Average = 58.2%	Willcox Unified School District	62.1%
Kyrene Elementary School District	64.4%	Bullhead City Elementary School District	61.3%
Alhambra Elementary School District	63.0%	Tanque Verde Unified School District	60.9%
Prescott Unified School District	61.5%	Fowler Elementary School District	60.7%
Cartwright Elementary School District	60.7%	Catalina Foothills Unified School District	60.5%
Litchfield Elementary School District	60.7%	Show Low Unified School District	60.3%
Flowing Wells Unified School District	60.6%	Higley Unified School District	59.9%
Lake Havasu Unified School District	60.1%	Madison Elementary School District	59.5%
Glendale Union High School District	60.1%	Payson Unified School District	59.5%
Marana Unified School District	59.2%	Safford Unified School District	59.1%
Pendergast Elementary School District	59.1%	Pima Unified School District	58.7%
Roosevelt Elementary School District	59.1%	Mingus Union High School District	58.6%
Vail Unified School District	59.0%	Williams Unified School District	58.5%
Tolleson Union High School District	59.0%	Ray Unified School District	58.3%
Crane Elementary School District	58.8%	Globe Unified School District	58.1%
Sunnyside Unified School District	58.7%	Wickenburg Unified School District	58.1%
Tempe Union High School District	58.6%	St Johns Unified School District	57.9%
Flagstaff Unified School District	58.4%	Buckeye Elementary School District	57.9%
Isaac Elementary School District	58.3%	Chino Valley Unified School District	57.9%
Glendale Elementary School District	58.3%	Toltec Elementary School District	57.5%
Creighton Elementary School District	58.0%	Benson Unified School District	57.4%
Humboldt Unified School District	57.6%	Winslow Unified School District	57.3%
Cave Creek Unified School District	57.2%	Snowflake Unified School District	57.3%
Amphitheater Unified School District	56.7%	Mohave Valley Elementary School District	57.2%
Kingman Unified School District	56.4%	Tolleson Elementary School District	57.1%
Tempe Elementary School District	56.3%	Parker Unified School District	57.0%
Yuma Elementary School District	56.0%	Balsz Elementary School District	56.9%
Casa Grande Elementary School District	56.0%	Morenci Unified School District	56.8%
Sierra Vista Unified School District	55.4%	Thatcher Unified School District	56.6%

1 Accommodation and Joint Technological Education Districts are shown separately.

Table 7 (Cont'd)

Medium (Concl'd)		Small (200-599)		Average =	54.7%
Tombstone Unified School District	56.4%	Wellton Elementary School District			65.5%
Littleton Elementary School District	56.4%	Littlefield Unified School District			63.7%
Florence Unified School District	56.4%	Beaver Creek Elementary School District			63.6%
Camp Verde Unified School District	56.3%	Fredonia-Moccasin Unified School District			62.8%
Miami Unified School District	56.1%	Naco Elementary School District			62.7%
Window Rock Unified School District	56.1%	Clarkdale-Jerome Elementary School District			60.2%
Mammoth-San Manuel Unified School District	55.9%	Ajo Unified School District			60.2%
Palominas Elementary School District	55.7%	Riverside Elementary School District			58.6%
Colorado River Union High School District	55.6%	Continental Elementary School District			58.3%
Casa Grande Union High School District	55.1%	Duncan Unified School District			58.1%
Round Valley Unified School District	55.0%	Nadaburg Elementary School District			56.1%
Whiteriver Unified School District	54.7%	Bagdad Unified School District			55.9%
Wilson Elementary School District	54.6%	Ash Fork Joint Unified School District			55.6%
Holbrook Unified School District	54.6%	Joseph City Unified School District			55.5%
Murphy Elementary School District	54.4%	Ft Thomas Unified School District			55.2%
Buckeye Union High School District	54.2%	Arlington Elementary School District			55.1%
Bisbee Unified School District	54.1%	Peach Springs Unified School District			55.0%
San Carlos Unified School District	54.1%	St David Unified School District			54.5%
Sahuarita Unified School District	54.0%	Mayer Unified School District			54.4%
Fountain Hills Unified School District	53.9%	Saddle Mountain Unified School District			54.4%
Santa Cruz Valley Unified School District	53.8%	Antelope Union High School District			54.1%
Cottonwood-Oak Creek Elementary School District	53.6%	Mohawk Valley Elementary School District			54.0%
Page Unified School District	53.0%	Gila Bend Unified School District			54.0%
Queen Creek Unified School District	52.7%	Grand Canyon Unified School District			53.5%
Laveen Elementary School District	52.3%	Superior Unified School District			53.5%
Sedona-Oak Creek Joint Unified School District	52.3%	Valley Union High School District			53.1%
Eloy Elementary School District	52.2%	Oracle Elementary School District			52.4%
Indian Oasis-Baboquivari Unified School District	52.2%	Heber-Overgaard Unified School District			52.3%
Sanders Unified School District	52.0%	J.O. Combs Elementary School District			52.3%
Coolidge Unified School District	51.9%	Santa Cruz Valley Union High School District			52.2%
Somerton Elementary School District	51.7%	Hayden-Winkelman Unified School District			51.2%
Agua Fria Union High School District	51.6%	Union Elementary School District			50.2%
Osborn Elementary School District	51.5%	Palo Verde Elementary School District			49.9%
Maricopa Unified School District	51.1%	Picacho Elementary School District			48.5%
Chinle Unified School District	50.8%	Sacaton Elementary School District			46.7%
Gadsden Elementary School District	50.6%	Quartzsite Elementary School District			46.3%
Piñon Unified School District	49.8%	Colorado City Unified School District			46.2%
Altar Valley Elementary School District	48.6%	Cedar Unified School District			41.6%
Kayenta Unified School District	47.9%				
Tuba City Unified School District	47.5%	Very Small (1-199)	Average =	54.8%	
Ganado Unified School District	47.0%	Blue Elementary School District			83.2%
Stanfield Elementary School District	46.9%	Sonoita Elementary School District			74.2%
Red Mesa Unified School District	42.0%	Valentine Elementary School District			68.3%

Table 7 (Concl'd)

Very Small (Cont'd)

Santa Cruz Elementary School District	65.7%
Crown King Elementary School District	63.9%
Double Adobe Elementary School District	63.5%
Bonita Elementary School District	63.4%
Cochise Elementary School District	62.7%
McNary Elementary School District	61.8%
Elfrida Elementary School District	61.2%
Patagonia Elementary School District	60.4%
Yucca Elementary School District	60.0%
Aguila Elementary School District	59.9%
Congress Elementary School District	59.3%
Topock Elementary School District	59.1%
Hillside Elementary School District	57.5%
Tonto Basin Elementary School District	57.3%
Bowie Unified School District	57.1%
Young Elementary School District	56.9%
Kirkland Elementary School District	56.7%
Skull Valley Elementary School District	56.4%
Hyder Elementary School District	55.1%
Pearce Elementary School District	54.6%
Yarnell Elementary School District	54.2%
Concho Elementary School District	54.1%
Owens-Whitney Elementary School District	53.7%
Seligman Unified School District	53.6%
Pomerene Elementary School District	53.3%
Clifton Unified School District	53.1%
Pine Strawberry Elementary School District	52.6%
Hackberry School District	52.5%
Alpine Elementary School District	52.3%
Red Rock Elementary School District	51.6%
San Simon Unified School District	51.4%
Solomon Elementary School District	50.9%
Maine Consolidated School District	50.6%
Bicentennial Union High School District	50.1%
McNeal Elementary School District	49.9%
Morristown Elementary School District	49.8%
Canon Elementary School District	49.5%
Bouse Elementary School District	49.1%
Apache Elementary School District	49.0%
Ash Creek Elementary School District	47.4%
Wenden Elementary School District	47.2%
Salome Consolidated Elementary School District	46.9%
Paloma Elementary School District	46.6%
Vernon Elementary School District	46.0%

Very Small (Concl'd)

Sentinel Elementary School District	45.7%
Patagonia Union High School District	42.5%
San Fernando Elementary School District	38.2%
Mobile Elementary School District	34.9%

Accommodation Average = 51.0%

Pima Accommodation School District	62.4%
Ft. Huachuca Accommodation School District	59.3%
Rainbow Accommodation School District	58.4%
Coconino County Regional Accommodation District	57.0%
Yavapai Accommodation School District	53.3%
Graham County Special Services District	46.7%
Maricopa County Regional School District	43.6%
Pinal County Special Education Program	42.0%
Mary C. O'Brien Accommodation School District	36.0%

Joint Technological Education² Average = 19.4%

East Valley Institute of Technology	59.7%
Northern Arizona Vocational Institute of Technology	53.6%
Central Arizona Valley Institute of Technology	52.6%
Gila Institute for Technology	24.3%
Valley Academy for Career and Technology Education	3.4%
Cobre Valley Institute of Technology	0.0%
Cochise Technology District	0.0%
Coconino Association for Vocation, Industry and Technology	0.0%
Northeast Arizona Technological Institute of Vocational Education	0.0%
Western Maricopa Education Center	0.0%

² 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 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

CHAPTER 2

Districts' uses of Proposition 301 monies

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 8 (see page 24), the Students FIRST Debt Service Fund receives the first allocation, 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, the Arizona Department of Education, and the State General Fund. In fiscal year 2004, these other distributions accounted for about \$221 million of the \$488 million in available Proposition 301 monies, or 45 percent.

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 2004, sales tax collections plus other sources available to the CSF totaled more than \$266 million. Using a per-pupil rate established by the Joint Legislative Budget Committee staff, school districts received \$232 million, or about 91 percent, of the \$256 million distributed; charter and state schools received the remainder.¹

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

¹ A.R.S. §15-977 requires the Joint Legislative Budget Committee staff to determine a per-pupil amount for distributing Proposition 301 monies, using the estimated weighted attending student count and estimated available resources of the Classroom Site Fund for the next budget year.

Table 8 Proposition 301 Distributions in Statutory Priority Order
Fiscal Years 2003 and 2004
Unaudited

	FY 2003	FY 2004
Sales Tax Revenue	<u>\$447,841,034</u>	<u>\$487,928,685</u>
Students FIRST Debt Service Fund —the amount necessary to pay annual debt-service payments for outstanding state school facilities revenue bonds. The revenue bonds cannot exceed \$800 million.	\$63,181,210	\$ 66,053,206
Universities —Technology and Research Initiative Fund for investment in technology and research-based initiatives. (12 percent of amount remaining after Students FIRST deduction)	46,159,179	50,625,058
Community College District —for districts' Workforce Development Accounts that invest in workforce development programs. (3 percent of amount remaining after Students FIRST deduction)	11,539,795	12,656,264
Tribal Assistance —to community colleges owned, operated, or chartered by qualifying Indian tribes for investment in workforce development and job training.	487,109	495,136
Arizona Department of Education (ADE) for five programs:		
• Additional School Days—to fund additional school days and the associated teacher salaries	32,963,233	50,246,825
• 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 state-wide database on student attendance and academic performance	6,689,125	6,855,441
• Failing Schools Tutoring Fund	1,500,000	1,500,000
Income tax credit for sales tax paid —reimburses the State 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>
Available for Classroom Site Fund:		
Remaining Sales Tax Revenue	252,321,383	266,496,755
Permanent State School Fund earnings (Land Trust)	20,826,377	0
Monies not yet distributed to closed charter schools	(73,201)	(45,489)
Monies withheld for AIMS noncompliance ¹	(9,681)	0
Monies not yet distributed ²	<u>(15,901,611)</u>	<u>(10,225,729)</u>
Total Funds Distributed to Districts and Charter and State Schools—	<u>\$257,163,267</u>	<u>\$256,225,537</u>

¹ These monies were withheld until the schools complied with AIMS requirements.

² 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 Laws 2000, Chapter 1, 5th Special Session, Arizona State Treasurer's Office revenue collection and distribution data, Arizona State Land Department fiscal year revenue distribution data, and other financial information provided by the Arizona Department of Education.

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 Laws 2000, 5th Special Session, Chapter 1, Section 62, the Legislature specified that it intended that CSF monies not be used for administrative purposes. The Legislature further restricted use of the monies beginning in fiscal year 2004 by requiring 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.

Districts continued to spend Proposition 301 monies largely for teacher pay

As directed by Proposition 301, districts spent the majority of their Classroom Site Fund monies for teacher pay and related benefits. As shown in Table 9, the largest proportion of these monies, 93 percent, was used for instruction purposes, such as paying teacher salaries and benefits. Nonclassroom expenditures included such things as paying for transportation or guidance counselors for services related to the specified programs, registration fees for professional development workshops, outside instructors, and supplies.

Table 9 Proposition 301 Expenditures by Function
Fiscal Year 2004

Function	Base Pay	Performance Pay	Menu Options	Total Expenditures	Percent of Total
Classroom (instruction)	\$43,699,960	\$91,506,642	\$84,437,331	\$219,643,933	93.0%
Student Support	1,815,406	3,064,114	4,023,090	8,902,610	3.8
Instruction Support	793,113	1,955,283	4,477,952	7,226,348	3.1
Administration	5,238	14,997	142,165	162,400	0.1
Plant Operations & Maintenance	196		33,098	33,294	0.0
Transportation			6,129	6,129	0.0
Total Expenditures	\$46,313,913	\$96,541,036	\$93,119,765	\$235,974,714	100.0%

Source: Auditor General staff analysis of fiscal year 2004 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

In addition to providing salary increases for teachers, about one-half of the districts reported providing the Proposition 301 salary increases to librarians and counselors. As shown in Table 10, on page 26, a few districts also paid Proposition 301 monies to instructional aides and other staff, such as nurses, instructional specialists, and support staff.

Table 10 Number of Districts Paying Increases by Position and Fund Fiscal Year 2004

Position	Number of Districts		
	Base Pay	Performance Pay	Menu Options
Teachers	216	209	202
Librarians	110	104	105
Counselors/Psychologists	108	111	103
Speech Pathologists/Audiologists	74	71	70
Instructional Aides	7	14	30
Other	26	32	34

Source: Auditor General staff analysis of district-reported data obtained from fiscal year 2004 Classroom Site Fund Narrative Results forms.

Proposition 301 monies contributed significantly to teacher salaries. The 214 districts that included salary information on their required Classroom Site Fund spending reports indicated an average increase of 10 percent, or \$3,251, from Proposition 301 monies. On an individual district basis, increases ranged from 1 to 20 percent, which equated to \$500 to \$6,700 per eligible employee. Districts with the highest increases generally paid out unspent monies from prior fiscal years in addition to fiscal year 2004 monies. According to salary data collected by the Arizona Department of Education (ADE), the State's average teacher salary increased from \$37,176 in 2001 to \$38,534 in 2004. This

smaller increase in the state-wide teacher pay average may be partly related to changes in the methodology ADE used to calculate the state-wide average teacher salaries. Another contributing factor may be teacher turnover as several districts reported that declines in their average teacher salary amounts were related to more experienced, higher-paid teachers retiring and being replaced with newer teachers at the lower end of teacher pay ranges.

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 allocated for performance-based pay increases. As in prior years, most districts reported that their performance pay goals related to student achievement, teacher development, and to parent and student satisfaction or involvement as shown in Table 11.

Table 11 Number of Districts with Performance Pay Goals by Category Fiscal Year 2004

Goal Category	Number of Districts		
	Setting Goals	Accomplishing Goals	Percentage Accomplishing Goals
Student Achievement	185	180	97%
Teacher Development	93	92	99%
Parent Satisfaction	91	91	100%
Teacher Evaluation	77	76	99%
Student Attendance	55	46	84%
Leadership	47	47	100%
Tutoring	36	36	100%
Other	36	35	97%
Teacher Attendance	25	24	96%
Dropout/Graduation Rates	22	19	86%

Source: Auditor General staff analysis of district-reported data obtained from fiscal year 2004 Classroom Site Fund Narrative Results forms.

Districts also directed menu monies toward various Proposition 301 purposes—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 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 reported spending most of their menu monies for class size reduction and teacher development.

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.

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; NA is used to indicate if data is not available or is not applicable.

The following table shows the sources of data used on the individual district pages, and also defines some common terms and acronyms used to describe districts' Proposition 301 goals and results.

Table 12 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 2004. ADM numbers are rounded to the nearest whole number.
District size	Auditor General staff analysis of ADE's fiscal year 2004 ADM counts. District sizes were categorized as follows: <ul style="list-style-type: none"> • Very Large 20,000 + ADM • Large 5,000 to 19,999 • Medium 600 to 4,999 • Small 200 to 599 • Very Small fewer than 200
Number of schools	ADE fiscal year 2004 data.
Number of certified teachers	ADE October 2003 data on full-time-equivalent (FTE) certified teachers for fiscal year 2004. Certified FTE numbers are rounded to the nearest whole number.
Student/teacher ratio, district and state for 2002, 2003, and 2004	Auditor General staff analysis of ADE's ADM and certified teacher counts for fiscal years 2002, 2003, and 2004.
Average teacher salary, state 2004	ADE average annual salaries associated with full-time-equivalent certified teachers, for fiscal year 2004.
Average teacher salary, district 2002, 2003, and 2004	District-reported average fiscal years 2002, 2003, and 2004 teacher salaries, including Proposition 301 monies. Some districts reported corrections to their previously reported prior years' average salary information.

Table 12 (Concl'd)

Data	Source
Average years' experience, district 2002, 2003, 2004, and state 2004	ADE average years' experience associated with full-time-equivalent certified teachers, by district, for fiscal years 2002, 2003, and 2004. The maximum experience ADE includes for reporting purposes is 15 years.
Classroom dollars—Pie chart and per-pupil expenditures	Auditor General staff analysis of fiscal year 2004 school district summary accounting data and Annual Financial Reports (AFRs), and ADE's 2004 ADM counts.
Classroom dollar ranking	Auditor General staff analysis of 227 Arizona school districts' summary accounting data and AFRs. Lower-ranking numbers indicate a higher percentage of dollars spent in the classroom.
4-year comparison—District and state percentages in 2001, 2002, 2003, and 2004; national percentage for 2002	Auditor General staff analysis of school district summary accounting data and AFRs for fiscal years 2001, 2002, 2003, and 2004. The 2002 national average was obtained from the U.S. Department of Education's National Center for Education Statistics (NCES), and is the most recent data available for national spending on instruction, the equivalent of classroom dollars.
Expenditures by function—District and state percentages in fiscal years 2001, 2002, 2003, and 2004	Auditor General staff analysis of school district summary accounting data for fiscal years 2001, 2002, 2003, and 2004.
Expenditures by function—National percentages	NCES fiscal year 2001 data, which is the most recent available at this level of detail. Although the 2004 data is not yet available, the national percentages have been relatively stable. For the most recent 5-year period that is available, fiscal years 1997 to 2001, the variations were less than 0.6 percent in any of the functional categories.
Proposition 301—District-reported results	<p>Auditor General staff analysis of district-reported Classroom Site Fund Narrative Results. The report was completed by 219 of the 221 districts receiving Proposition 301 monies.</p> <p>The following 2 districts did not report results:</p> <p>Colorado City Unified School District Pinon Unified School District</p>
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," "underperforming," or "failing to meet 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, 5, and 8, and high school.

♦