

## REPORT HIGHLIGHTS SPECIAL STUDY

### Subject

This report identifies factors that explain cost differences between districts with particularly high and particularly low per-pupil administrative costs in FY 2001. Our analysis emphasizes districts that moved into or out of the “high” and “low” administrative cost categories between fiscal years 1999 and 2001.

### Our Conclusion

Districts with high costs are typically smaller and have higher-than-average salaries, benefits, purchased services, and higher staffing levels on a per-pupil basis. Districts with low costs are usually larger and have lower-than-average per-pupil costs and staffing levels. Fluctuations in student enrollments were often involved when districts’ costs moved in or out of the high or low categories.



# 2002

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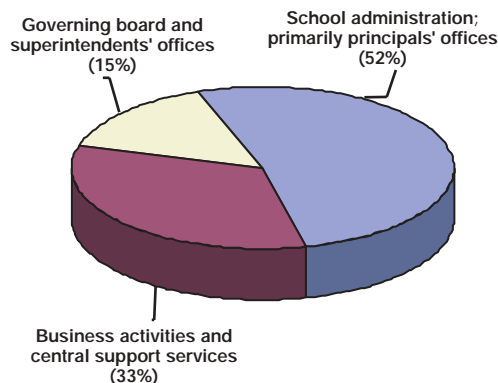
## Factors Affecting Administrative Costs

The Legislature directed the Joint Legislative Budget Committee staff (JLBC) to determine each school district’s per-pupil administrative costs. The Auditor General’s Office was directed to identify *why* districts in the JLBC study had particularly high or low administrative costs in fiscal year 2001, or moved in or out of the high or low categories between 1999 and 2001.

### Administrative costs—

Administrative costs are those associated with directing and managing a school district’s responsibilities and include costs associated with the governing board, the superintendent, and principals’ and business offices.

Figure 1 Administrative Costs by Functional Area  
Fiscal Year 2001  
(Unaudited)



Source: Auditor General staff analysis of district-reported accounting data.

On a state-wide basis, these administrative costs averaged approximately \$560 per pupil in fiscal year 2001.

**Several factors affect districts’ administrative costs—**We identified 5 main factors that affect whether a district has particularly high or particularly low per-pupil administrative costs. The 11 districts we reviewed with particularly high administrative costs tend to fall toward one end of the scale for these factors, and the 8 districts with particularly low administrative costs fall toward the other end of the scale.

**Number of students** is the primary factor affecting per-pupil administrative costs. Smaller districts are more likely to have higher per-pupil costs because there are fewer students over which to spread these costs. For example, two districts had similar total administrative expenses, but one’s cost per pupil was \$677 compared to the other’s \$6,013, because the first had 117 students and the second had 15.

**Salary and staffing levels** play a major role in administrative costs. Salary is the largest component of all school district operating costs, including administration. Districts with higher per-pupil salary costs paid higher employee salaries, employed more administrators per pupil, or both. For example, starting salaries for high school principals in one higher-cost district were as much as \$9,300 more than in a lower-cost district. Another higher-cost district employs an assistant principal at each of its elementary schools, which range in size from 160 to 890 students. In comparison, a lower-cost district generally does not employ assistant principals in elementary schools with fewer than 1,000 students.

**Benefits** are another large component of per-pupil administrative costs and, as with salaries, higher benefit costs lead to higher administrative costs. District decisions about the level of insurance coverage to provide and whether to offer early retirement packages affect benefit costs. For instance, one higher-cost district pays for all health, dental, and vision insurance costs for its employees and their dependents. Other districts do not always provide this level of coverage. In addition, two higher-cost districts offered employees early retirement packages, which increased benefit costs. Lower-cost districts appeared better able to manage benefit costs. Some developed or participated in self-insurance plans. Others were able to negotiate competitive health insurance rates because of their size and metropolitan locations.

**Purchased services** vary, depending on a district's needs, but they can significantly impact overall administrative costs. Purchased services include computer, accounting, legal, communication, travel, advertising, and other services. One district paid \$162,000 for accounting and student records software and support. Because one district had numerous accounting problems, its financial audit cost \$107,000; the more typical cost for districts of this size and type is between \$10,000 and \$25,000. Further, to resolve contract and employee-related issues,

one district paid about \$100,000 in attorney's fees.

**Multiple factors affect districts with changing costs**—We also reviewed factors that caused districts to have particularly high or low costs in either fiscal year 1999 or 2001, but not both. Nine districts had significant cost increases and two had significant cost decreases between the 2 years.

Many of the districts had fluctuations in the number of students, which affected the per-pupil costs. One district's per-pupil administrative costs increased by \$1,970 primarily because 1 month before the 2001 school year started, the district learned that about two-thirds of the students would be attending private schools. Another district's student population decreased by about one-third over the 2-year period. The decline contributed to the district's per-pupil costs almost doubling, a \$660 per-pupil increase.

Salary and staffing levels, as well as benefits, caused costs to change. In addition, accounting changes or errors affected some districts. For example, in one district an administrator taught part-time, but in FY 1999 the district charged all of the salary to administration. In FY 2001, the district allocated the salary between instruction and administration, accounting for almost all of the \$16,111 decrease in administrative costs.

## Other Factors Associated with Administrative Costs

In addition to the factors discussed above, school size, location, and significant amounts of federal impact aid were associated with administrative costs. Furthermore, districts with high

administrative costs also tended to have low classroom dollar percentages and, although we are unable to explain why, available fund balances greater than 50 percent of 1 year's total expenditures.

# Comparative tables: Per-pupil costs and staffing levels in selected districts

**Table 1** Per-pupil costs and staffing levels in selected **high-cost** districts (Unaudited)

District Name	Size <sup>1</sup>	As compared to peer districts, selected districts have higher than average				
		Salaries	Staffing Level	Benefits	Purchased Services	Supplies
Antelope UHSD	Small	✓				
Canon ESD	Small	✓	✓	✓		
Cochise ESD	Small	✓	✓	✓	✓	
Joseph City USD	Small	✓	✓	✓	✓	✓
Mobile ESD	Small	✓	✓	✓	✓	✓
Oracle ESD	Small	✓	✓	✓	✓	✓
Sacaton ESD	Small	✓	✓	✓	✓	✓
Santa Cruz Valley UHSD	Small		✓		✓	
Valley UHSD	Small	✓				
Phoenix UHSD	Large	✓	✓	✓	✓	
Roosevelt ESD	Large	✓	✓	✓	✓	✓

<sup>1</sup> Small districts have less than 600 students; medium districts have 600 to 4,999; and large districts have 5,000 or more.

Source: Auditor General staff analysis of district-reported fiscal year 2001 accounting data.

**Table 2** Per-pupil costs and staffing levels in selected **low-cost** districts (Unaudited)

District Name	Size <sup>1</sup>	As compared to peer districts, selected districts have lower than average				
		Salaries	Staffing Level	Benefits	Purchased Services	Supplies
Kirkland ESD	Small	✓		✓	✓	✓
Bullhead City ESD	Medium	✓	✓	✓	✓	✓
Casa Grande UHSD	Medium	✓	✓	✓	✓	✓
Snowflake USD	Medium	After adjusting for charter school enrollment, district costs are not low				
Cartwright ESD	Large	✓	✓	✓	✓	✓
Gilbert USD	Large	✓	✓	✓	✓	✓
Paradise Valley USD	Large	✓	✓	✓	✓	✓
Washington ESD	Large	✓	✓	✓	✓	✓
Yuma UHSD	Large	✓		✓		✓

<sup>1</sup> Small districts have less than 600 students; medium districts have 600 to 4,999; and large districts have 5,000 or more.

Source: Auditor General staff analysis of district-reported fiscal year 2001 accounting data.

Table 3

Factors affecting districts with changing costs  
(Unaudited)

Districts with Increased Costs	Decreased ADM	Increased Costs			Accounting Changes/Errors
		Salaries	Benefits	Purchased Services	
Alhambra ESD		✓	✓	✓	
Bouse ESD	✓				✓
Colorado City USD	✓	✓	✓	✓	
Ganado USD	✓	✓	✓	✓	✓
J.O. Combs ESD		✓	✓	✓	✓
Quartzsite ESD	✓	✓		✓	
San Simon USD	✓	✓	✓	✓	
Scottsdale USD		✓	✓	✓	✓
Skull Valley ESD	✓	✓	✓	✓	

Districts with Decreased Costs	Increased ADM	Decreased Costs			Accounting Changes/Errors
		Salaries	Benefits	Purchased Services	
Blue ESD	Administrative functions shifted to county school superintendent				
Buckeye UHSD	After adjusting for accounting errors, district costs did not decline				
Pomerene ESD				✓	✓
Red Mesa USD	✓		✓	✓	
Peach Springs USD	After adjusting for charter school enrollment, district costs did not change				

Source: Auditor General staff analysis of districts' 1999 Annual Financial Report information obtained from ADE, district-reported fiscal year 2001 accounting data, and interviews with district officials.

### 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:  
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