



Joint Legislative Audit Committee

February 19, 2026—1:00 p.m.



Lindsey A. Perry
Auditor General

ARIZONA STATE LEGISLATURE

INTERIM MEETING NOTICE OPEN TO THE PUBLIC

JOINT LEGISLATIVE AUDIT COMMITTEE

Date: Thursday, February 19, 2026

Time: 1:00 P.M.

Place: HHR 1

Members of the public may access a livestream of the meeting here:

<https://www.azleg.gov/videoplayer/?clientID=6361162879&eventID=2026021112>

AGENDA

Call to order and opening remarks

1. Arizona State Board of Chiropractic Examiners Special Audit, January 2026
Followup of Report 24-115
 - Presentation by Arizona Auditor General's Office (Office) Contractor
 - Presentation by Arizona State Board of Chiropractic Examiners
 2. Arizona school districts financial risk processes and results, January 2026 Financial Risk Analysis Report
 - Presentation by Office
 - Presentation by some Arizona school districts with the highest financial risk
- Adjournment

Members:

Senator Mark Finchem, Co-chair
Senator Hildy Angius
Senator Flavio Bravo
Senator David C. Farnsworth
Senator Catherine Miranda
Senator Warren Petersen, Ex-officio

Representative Matt Gress, Chair 2026
Representative Michael Carbone
Representative Steve Montenegro, Ex-officio
Representative Michele Peña
Representative Stephanie Stahl Hamilton
Representative Betty J Villegas

02/12/2026
VC

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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: February 17, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, Joint Legislative Audit Committee (JLAC)

FROM: Lindsey Perry, Auditor General

SUBJECT: Arizona State Board of Chiropractic Examiners Special Audit, January 2026
Followup of Report 24-115

Background

At its February 12, 2024, meeting, JLAC directed my Office to conduct a special audit of the Arizona State Board of Chiropractic Examiners (Board) to address 7 areas of concern related to the Board's operations. We contracted with the independent firm Sjoberg Evashenk Consulting, Inc. to conduct the audit. Our contract auditor's December 2024 audit identified several issues and made recommendations in each of the 7 areas and identified issues and recommendations in an additional area.

Specifically, the Board:

1. Regularly requested or subpoenaed information outside the scope of complaint allegations contrary to statute, potentially resulting in unwarranted disciplinary actions and lengthy complaint investigations.
2. Did not consistently apply statutes and rules regarding licensees' continuing education and recordkeeping and follow consistent practices when requiring licensees accused of sexual impropriety to undergo psychosexual evaluations, but consistently initiated investigations of complaints related to improper division of fees for patient referrals.
3. Did not always refer allegations of criminal wrongdoing, such as allegations of sexual contact and insurance fraud, to appropriate criminal justice agencies as required by statute, increasing public safety risks and potentially delaying or hindering criminal investigations.
4. Made progress resolving complaints dating back to 2018; however, as of May 1, 2024, 69 percent of its open complaints had been open for more than 180 days, and it took an average of 551 days to investigate and resolve high-priority complaints auditors reviewed, potentially impacting patient safety and causing undue burden for licensees under investigation for lengthy periods of time.

5. Encouraged its licensees to oppose legislation without clear statutory authority to do so, making statements that were potentially misleading and using its resources for purposes other than regulating the chiropractic profession.
6. Did not always comply with open meeting law requirements, including limiting the public's ability to address the Board during the call to the public, and altering 7 meeting recordings by deleting references to patients and licensees, thereby limiting the public's access to information.
7. Had not established processes for ensuring consistency in some Board practices and communicating changes in Board practices to licensees and the public, such as by developing substantive policy statements as authorized by statute, contributing to issues the contractor identified and potentially creating confusion among licensees and the public.
8. Did not comply with some State conflict-of-interest requirements, and its conflict-of-interest process was not fully aligned with recommended practices, increasing the risk that Board members and employees had not disclosed substantial interests that might influence their official conduct.

Our contract auditor made 28 recommendations to the Board, and the Board agreed with all findings and planned to implement or implement in a different manner all the recommendations. On January 17, 2025, we presented the initial special audit findings to the Joint Senate and House of Representatives Health and Human Services Committees of Reference.

Further, on January 13, 2026, our contract auditor issued the Board's followup report and found that the Board was in the process of implementing 25 of the 28 recommendations. For example, the Board:

- ▶ Adopted or drafted policies, procedures, and other written guidance that include:
 - Processes for identifying scopes of information the Board may request or subpoena, including requiring that all subpoenas be directly related to complaints and within the scope of the investigation and revising its subpoena template to limit standardized language to requests for responses to allegations and patient records.
 - Requirements for Board staff to review licensees' continuing education course certificates when reviewing renewal applications.
 - Guidance for consistently applying psychosexual evaluations during complaint processing and adjudication.
 - Requirements for referring complaints involving evidence of criminal wrongdoing to criminal justice agencies in some but not all cases.
 - A complaint-handling timeline that outlines the number of days for each step of its complaint-handling process.
 - A prohibition on Board members and staff encouraging licensees or the public to support or oppose legislation.
 - Requirements for Board member onboarding and annual training.
 - Requirements for helping to ensure compliance with the State's conflict-of-interest laws, such as requiring all Board members and staff to complete conflict-of-interest disclosure forms upon appointment or hire and annually thereafter.

- ▶ Created a standing legislative and Governance Committee to guide the Board in matters pertaining to legislation and advocacy activities, including communication of such matters to licensees.
- ▶ Developed and conducted or planned to conduct various trainings for Board members and staff on topics such as:
 - Issuing subpoenas.
 - Open meeting law requirements.
 - Conflict-of-interest requirements.

However, the Board had not implemented 3 recommendations to investigate and resolve complaints within 180 days, comply with all statutory open meeting law requirements, and consult with the Attorney General's Office's Open Meeting Law Enforcement team to determine what restrictions can be placed on speakers during the call to the public.

Additionally, our contract auditor identified 2 new problems related to providing timely and appropriate information to the public, including posting disciplinary actions on its website longer than allowed by statute and not maintaining a complete log of public records requests it received. As a result, our contract auditor made 4 new recommendations to the Board to address these issues.

We were asked to present information on the Board's January 2026 followup report. George Skiles, Partner with Sjoberg Evashenk Consulting, Inc., will provide an overview of information from that followup report.

Attachment A includes the Board's January 2026 special audit followup of Report 24-115.

Action required

None. Presented for JLAC's information only.

Attachment A

Special Audit Initial Followup Report Arizona State Board of Chiropractic Examiners



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

Melanie M. Chesney, Deputy Auditor General

January 13, 2026

Members of the Arizona Legislature

The Honorable Katie Hobbs, Governor

Executive Director Vander Veen
Arizona State Board of Chiropractic Examiners

We have issued an initial followup report regarding the implementation statuses of the recommendations from the December 2024 *Special Audit of the Arizona State Board of Chiropractic Examiners* report (see report 24-115) conducted by the independent firm Sjoberg Evashenk Consulting under contract with the Arizona Auditor General. This audit was in response to a February 12, 2024, resolution of the Joint Legislative Audit Committee and was conducted under the authority vested in the Auditor General by Arizona Revised Statutes §41-1279.03.

The December 2024 report made 28 recommendations to the Arizona State Board of Chiropractic Examiners. My Office contracted with Sjoberg Evashenk Consulting to conduct initial followup work with the Arizona State Board of Chiropractic Examiners, and as of this initial followup report, 25 recommendations are in process and 3 recommendations have not been implemented.

My Office has contracted with Sjoberg Evashenk Consulting to follow up with the Arizona State Board of Chiropractic Examiners again at 18 months to assess its progress in implementing the 28 outstanding recommendations.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

The December 2024 Arizona Board of Chiropractic Examiners (Board) special audit found that the Board regularly subpoenaed or requested information outside the scope of complaint allegations, did not consistently apply statutes and rules regarding continuing education and record keeping, did not always report allegations of criminal wrongdoing to appropriate criminal justice agencies, did not resolve complaints within 180 days, engaged in advocacy activities with its licensees without clear statutory authority to do so, did not always comply with open meeting law, lacked established processes to ensure consistency in some practices, and did not comply with State conflict-of-interest requirements and recommended practices. We made 28 recommendations to the Board.

Board's status in implementing 28 recommendations

Implementation status	Number of recommendations
✓ Implemented	0 recommendations
🔄 In process	25 recommendations
✗ Not implemented	3 recommendations

While performing our followup work, we identified problems in 2 additional areas—the Board's processes for posting disciplinary and nondisciplinary actions and orders on its website and for fulfilling public records requests. We discuss these 2 additional areas on pages 16 through 17 following our discussion of the audit findings and recommendations and made 4 additional recommendations to the Board to help ensure the Board complies with statutory requirements for posting licensee information on its website and appropriately and timely responding to all public records requests. We will conduct an 18-month follow-up with the Board on the status of the recommendations that have not yet been implemented.

Finding 1: Board regularly requested or subpoenaed information outside the scope of complaint allegations contrary to statute, potentially resulting in unwarranted disciplinary actions and lengthy complaint investigations

1. The Board should cease its practice of subpoenaing and requesting information that is unrelated to complaint allegations when investigating complaints.

Implementation in process—In October and December 2025, the Board adopted policies regarding its complaint intake and investigation processes. These policies require the Board's Executive Director, Deputy Director, and assigned Assistant Attorney General (referred to as the "Intake Committee") to meet bi-weekly to review and establish investigative parameters for newly

received complaints based on identified allegations. The Intake Committee's responsibilities include determining whether to investigate a complaint and identifying appropriate scopes of information the Board may request or subpoena according to complaint allegations and Intake Committee-designated "complexity" levels. The Board also developed a guide for its staff that lists documentation that may be appropriate to request by allegation type and complexity and provided a memo to staff that further outlines the types of records that may be appropriate to request by the level of complexity of the complaint. To address the audit report finding that the Board's use of boiler-plate language in requests and subpoenas led to consistent unwarranted scope expansions, the Board also adopted a new subpoena template that limits standardized language to requests for responses to allegations and patient records, and staff training on subpoenas is planned for January 2026 and will be part of new investigator onboarding training going forward.

The Board's policies also require all new complaints to be reviewed by the Board's Executive Director and assigned Assistant Attorney General, who utilize a standard form to describe the allegations, the statutes and/or rules that authorize Board investigation, the specific records sought, and a justification for requesting or subpoenaing the records by stating investigative need. The policies specify that all subpoenas must align with statutory and rule-based authority, must be directly related to the complaint and within the scope of the investigation, and that the Board's Executive Director and assigned Assistant Attorney General must follow specified procedures during the intake process, including reviewing the subpoena before it is issued. Given the recent adoption of these procedures, we will further assess the Board's implementation of this recommendation during our next follow-up.

2. The Board should cease the practice of using investigations as a means to monitor compliance with continuing education requirements and to evaluate the quality of a licensee's recordkeeping, and develop administrative procedures for reviewing these matters outside of the complaint investigation process.

Implementation in process—The Board reported no longer monitoring continuing education compliance or evaluating the quality of a licensee's recordkeeping via the complaint handling process. Our review of subpoenas or requests for information for 10 of 59 complaints received or opened by the Board since the issuance of the audit report on December 20, 2024, revealed that none included requests for information relating to continuing education. However, as of October 2025, none of the 59 complaints were resolved, so full implementation of this recommendation will be assessed during our next followup.

Additionally, the Board adopted a policy requiring licensees to submit continuing education documentation during the licensing renewal process and directing Board staff to review a licensee's continuing education course certificates before approving a renewal application. In addition to requiring staff to verify continuing education compliance upon license renewal, the policy also allows Board staff to regularly audit licensees' continuing education. However, the Board has not developed procedures to evaluate licensee recordkeeping outside the complaint handling process. We will further assess the Board's implementation of this recommendation during our next followup.

3. The Board should develop and implement policies and/or procedures that include guidance for Board staff to tailor information requests and subpoenas that are directly related to the complaint filed and within the scope of the investigation.

Implementation in process—As explained in recommendation 1, the Board adopted a complaint intake policy establishing an Intake Committee that is responsible for identifying appropriate scopes of information the Board may request or subpoena. The intake policy requires the Intake Committee to identify and record information about the complaint and the investigative scope in one document for all investigative staff to reference, including a complaint summary, itemized allegations, and potential violations of statute and rule, which investigators are required to use to inform the development of subpoenas or information requests. The Board also established a subpoena development guidance form and revised its subpoena template, which limits standardized language to requests for responses to allegations and patient records. Finally, in December 2025, the Board adopted a policy covering its investigation processes. Together, these policies require new complaints to be reviewed by the Board's Executive Director and assigned Assistant Attorney General and identify documents to be included in the request for information or subpoena. Board policy also requires the Executive Director and assigned Assistant Attorney General to review subpoenas before they are issued. Given the recent adoption of these policies, we will further assess the Board's implementation of this recommendation during our next followup.

4. The Board should develop and implement a documented process for the Board's Executive Director and legal counsel to review subpoenas to help ensure that the information requested or required to be provided is directly related to the complaint filed and within the scope of the investigation.

Implementation in process—See explanation for recommendation 3.

5. The Board should include information in its subpoenas informing licensees regarding their ability to petition the Board or the Courts to revoke, limit or modify the subpoena, consistent with the practice of the Superior Courts of Arizona.

Implementation in process—The Board revised its subpoena template to include a paragraph advising licensees of their ability to petition the Board or the Courts to revoke, limit, or modify a subpoena. The Board has also adopted a letter for licensees to accompany any subpoena that provides information and instructions for petitioning to revoke, limit, or modify a subpoena. We reviewed 3 subpoenas the Board issued after the audit report was published December 20, 2024, and found that all 3 included the revised language. Our review of these 3 subpoenas revealed that in no case did the recipient petition the Board or court to revoke, limit, or modify the subpoena. To ensure consistent implementation over a longer period of time, we will further assess the Board's implementation of this recommendation during our next followup.

Finding 2: Board did not consistently apply statutes and rules regarding licensees' continuing education and recordkeeping, but did consistently initiate investigations for complaints related to improper division of fees for patient referrals

6. The Board should conduct a formal review of its use of psychosexual evaluations to assess and document their relevance and appropriateness in evaluating a chiropractor's professional competence. If determined appropriate, it should develop and implement policies, procedures, and/or guidance for when to order a licensee to complete psychosexual evaluation, including outlining how the Board will use the evaluation results.

Implementation in process—The Board began a review of its use of psychosexual evaluations by conducting a limited review of pertinent literature.¹ In December 2025, the Board adopted a policy to guide the Board in consistently applying psychosexual evaluations during complaint processing and adjudication by identifying what may trigger the use of these evaluations, the training psychosexual evaluators must complete, the documentation requirements for psychosexual evaluation referrals, the core components evaluations must include, and how the Board should address completed evaluations. The Board reported that it has not received any cases requiring a psychosexual evaluation since we issued our December 2024 special audit report. Given the recent adoption of this policy, we will further assess the Board's implementation of this recommendation during our next followup.

Finding 3: Board did not report allegations of criminal wrongdoing to appropriate criminal justice agencies as required by statute for applicable complaints we reviewed, with 1 exception, increasing public safety risks and potentially delaying or hindering criminal investigations.

7. The Board should revise and implement its policy to require it to report all allegations of evidence of criminal wrongdoing to the appropriate criminal justice agency within 48 hours.

Implementation in process—In December 2025, the Board adopted a policy that requires the Board to refer complaints to criminal justice agencies if evidence of criminal wrongdoing is found, and to do so within 48 hours of the determination. Statute requires the Board to report all allegations of evidence of criminal wrongdoing to the appropriate criminal justice agency, and the adopted policy falls short of this standard.

Since being informed of this problem during the audit engagement, the Board reported receiving 2 allegations involving potential criminal wrongdoing during the fall of 2024, and that it reported these allegations to criminal justice agencies in April and May 2025. In both instances, the Board reported allegations of potential criminal wrongdoing to the appropriate authorities, but did not do

¹ This literature included a sexual violence prevention report by the Arizona Department of Health Services, an article on the role of chiropractic leadership in the eradication of sexual abuse published by the Canadian Chiropractic Association, and a Substantive Policy Statement from a fellow Arizona health profession licensing board concerning the handling of criminal conduct, including sexual misconduct

so within 48 hours of receiving such evidence. We will further assess the Board's implementation of this recommendation during our next followup.

8. The Board should revise and/or develop and implement policies or procedures that include requirements and guidance for Board staff to coordinate with criminal justice agencies when conducting complaint investigations that include allegations of criminal wrongdoing. At a minimum, the requirements and guidance should outline how Board staff should work with criminal justice agencies to share information and/or coordinate investigations with criminal justice agency personnel and when and how its staff should review the results of these agencies' investigations.

Implementation in process—Board staff reported having gathered and reviewed applicable policies and procedures from other State regulatory boards, as well as literature on and audits of health regulatory boards to identify best practices for collaborating with criminal justice agencies during parallel investigations, and that the Board hired an investigator with criminal justice investigative experience. Additionally, the Board's policy revision discussed in recommendation 7 for reporting evidence of criminal wrongdoing to criminal justice agency directs staff to coordinate with the relevant agency throughout an investigation, but it does not provide guidance regarding how Board staff should work with criminal justice agencies to share information or materials, coordinate investigations with criminal justice agency personnel, or when and how its staff should review the results of these agencies' investigations. The Board has also drafted a policy addressing how it will share materials as allowed by law and review the criminal justice agency's investigative outcome for possible Board action and the Executive Director intends to bring the draft policy to the Board in January 2026. We will further assess the Board's implementation of this recommendation during our next followup.

9. The Board should provide training for Board members and staff on its policies and procedures related to reporting allegations of criminal wrongdoing to criminal justice agencies.

Implementation in process—The Board has adopted a policy for reporting allegations of criminal wrongdoing to criminal justice agencies, as discussed in recommendation 7. The Board also adopted a separate Board member training policy in October 2025 that specifies that Board members will receive monthly training on a variety of topics, including training on handling allegations of criminal wrongdoing on an annual basis (see recommendation 22 for more information on the Board member training policy). In addition to Board member training, the Board also reported holding monthly meetings for Board staff to review sections of governing statutes—including Arizona Revised Statutes (A.R.S.) §32-924, which covers the requirement to report criminal allegations—and corresponding rules.² We will further assess the Board's implementation of this recommendation during our next followup.

² A.R.S. §32-924(J) states that the Board shall report allegations of evidence of criminal wrongdoing to the appropriate criminal justice agency.

Finding 4: Board has made progress in resolving complaints dating back to fiscal year 2018 but continued to not resolve complaints within 180 days, which may affect patient safety and cause undue burden for licensees under investigation for lengthy periods of time.

10. The Board should resolve complaints within 180 days.

Not Implemented—The Board received 59 complaints between December 20, 2024, and September 25, 2025. As of October 2025, the Board had not resolved any of the complaints, and 11 of 59 complaints have been open for more than 180 days. See recommendations 11 through 13 for additional information on the steps the Board is taking to help it resolve complaints within 180 days and prioritize high-priority complaints for investigation. We will further assess the Board's implementation of this recommendation during our next followup.

11. The Board should develop and implement time frames for the various steps in its complaint investigation and resolution process based on severity-ranking, including notice of complaint, initial action, and final resolution.

Implementation in process—The Board reported reviewing the complaint-handling policies of other State regulatory boards, its existing complaint prioritization classifications, and the overall and sub-timelines of its prior complaints and, in December 2025, adopted a complaint handling timeline that outlines the number of days for each step of its complaint handling process. The timeline includes time frames for logging a complaint upon receipt, receiving the licensee's written response, and bringing the complaint before the Board for its review. The Board reported continuing to refine these timelines to effectively manage complaints and meet the goal of resolving complaints within 180 days. Given the recent adoption of this policy, we will further assess the Board's implementation of this recommendation during our next followup.

12. The Board should ensure high priority complaints are investigated and prioritized for Board review before low priority complaints by investigating and prioritizing Board review for high-priority complaints according to the developed time frame.

Implementation in process—In December 2025, the Board adopted a complaint prioritization matrix that categorizes complaint allegations by complexity (high, medium, and low), and dictates the priority with which these should be handled by Board staff via corresponding time frames for review and resolution. For example, according to the matrix, a high complexity complaint, such as an allegation of substance use during practice, should undergo initial review within 2 business days, and initial investigation and any needed interim action, such as an order for substance use testing, should be taken within 5 business days. Conversely, a low complexity complaint, such as a minor procedural allegation with minimal impact on patient safety, should undergo initial review within 14 days. This policy establishes timelines for key steps of the complaint handling process, irrespective of complexity level, methods to track complaints based on complexity, and executing key functions of the complaint handling process. Given the recent adoption of this policy, we will further assess the Board's implementation of this recommendation during our next followup.

13. The Board should avoid delaying complaint adjudication when the parties of the complaint may be subject to civil litigation unless necessary, and ensure timely completion of all complaints based on their severity level regardless of whether related complaints may be adjudicated by other agencies or courts unless otherwise ordered to do so by an appropriate authority.

Implementation in process—According to the Board, although it intends to avoid delaying complaint adjudication when the parties may be subject to civil litigation, unless necessary, it has not received any complaints subject to civil litigation since we issued our December 2024 special audit report. We will further assess the Board's implementation of this recommendation during our next followup.

Finding 5: The Board engaged in advocacy activities with its licensees without clear statutory authority to do so, and in these efforts, made statements that were potentially misleading to its licensees, and used its resources for purposes other than regulating the chiropractic profession.

14. The Board should immediately discontinue efforts to persuade licensees to support/oppose legislation, including using public resources to advocate for its position.

Implementation in process—In December 2025, the Board adopted a policy prohibiting Board members and staff from encouraging licensees or the public to support or oppose legislation. The Board has taken the additional step of creating a standing Legislative and Governance Committee to guide the Board in all matters pertaining to legislation and advocacy activities, including communication of such matters to licensees. In addition, the Board reported that it has not engaged in any advocacy campaigns since those cited in our December 2024 report. We will verify that the Board is no longer engaged in advocacy campaigns to persuade licensees on legislative matters during our next followup. See recommendation 15 for additional information on steps the Board is taking related to lobbying and advocacy activity.

15. The Board should develop and implement Board policies and procedures related to lobbying and advocacy activities, including:
 - a. Specifying that any efforts to influence legislation should be conducted through the Board's designated public lobbyist and within the framework provided by statute.
 - b. Developing a protocol for communicating with licensees about legislative issues to ensure the Board is providing complete and accurate information.

Implementation in process—Board staff reported reviewing guidance for complying with Arizona statutes and rules concerning lobbying and advocacy activity from other health profession regulatory boards. As discussed in recommendation 14, the Board also adopted a policy prohibiting Board members and staff from encouraging licensees or the public to support or oppose legislation. The adopted policy includes provisions for complying with State lobbying requirements, including defining when the Board may take official positions on legislation relevant to its governance of the chiropractic profession and specifying that Board updates to the public concerning legislation must be factual, non-advocacy-based, and compliant with Arizona lobbying

statutes. The policy also includes a process for communicating legislative issues to all stakeholders, including licensees and registered business entities, and also requires training for Board members and staff to help ensure adherence to the new policy. The Board reported that the training is scheduled for its January 2026 Board meeting.

However, the policy does not fully address the recommendation. Specifically, the policy specifies that “grassroots efforts” are exempt from Arizona lobbying registration requirements. Although the Executive Director clarified that this exemption is intended to provide for a Board Member’s right to free speech independent of their role with the Board, this provision could be misconstrued as supporting advocacy actions by Board members or staff outside of statutorily-authorized lobbying activities. That is, it could be construed to permit the Board or Board members to solicit advocacy action from the chiropractic community, for which there is not explicit statutory authority to do so. The Executive Director reported that a Board member code of conduct is being developed, which will address this concern. Overall, while the Board has begun efforts to comply with this recommendation, elements of the provided policy under development could be construed as continuing to support some of the improper actions we previously identified. We will further assess the Board’s implementation of this recommendation during our next followup.

Finding 6: Board did not always comply with open meeting law, including the call to the public, and altered 7 meeting recordings by deleting references to patients and licensees, limiting the public’s access to information on Board decisions and the public’s ability to address Board during public meetings.

16. The Board should comply with all statutory open meeting law requirements including but not limited to ensuring meeting notices, agendas, executive sessions, minutes, and calls to the public are handled and documented as required by statute.

Not implemented—We reviewed 2 of 6 Board meetings held between January and September 2025, and found that the Board complied with some, but not all, provisions of open meeting law. For example, consistent with statute and guidance provided by the Arizona Attorney General, the Board posted both meeting agendas at least 24-hours before the meetings and did not interfere with or limit any public comments during the calls to the public.³ However, the Board posted the audio recording for the January 22, 2025, meeting 8 days after the meeting, later than the 5-day statutory requirement.⁴ The Board also did not comply with all provisions of open meeting law by posting an incomplete audio recording of the meeting held on July 23, 2025. In this instance, the Board’s recording started after the meeting began, and the recording did not include a roll call identifying Board members in attendance, the date and time of the meeting, or the meeting location. The Board posted an “Audio Supplement” document along with the recording that included member and staff attendance, meeting location (virtual), and a Board member’s recusal that occurred before the recording began.

³ A.R.S. §38-431.02 and Arizona Attorney General Agency Handbook, Chapter 7, section 7.6.7.

⁴ A.R.S. §§32-4801(A)(1) and (2); and 32-3222(B)(1) and (2)

In addition, for both the January 22, 2025, and July 23, 2025, Board meetings, the Board's posted agendas misused the *ad hoc* executive session provision, similar to what we found during the audit. As discussed in our December 2024 special audit report, the Attorney General has opined that public bodies may include a general statement on its notices and agendas indicating that matters on the meeting agenda may be discussed in executive session on an *ad hoc* basis to receive legal advice that may be required during the course of a public meeting, but which cannot be anticipated at the time the agenda was prepared. The *Attorney General Agency Handbook* specifically states that generic or *ad hoc* "statements are not sufficient for other types of executive sessions."⁵ However, for both of these meeting agendas, the Board included a statement that it may enter into executive session on agenda items as needed, not only for legal advice, but also to discuss confidential records or information, despite the Attorney General's opinions indicating the *ad hoc* provision is only to be used for legal consultation. The statements in the 2 agendas also did not cite the statutory authority that would authorize the Board to enter into executive session according to this *ad hoc* provision, as required by statute.⁶ We will further assess the Board's implementation of this recommendation during our next followup.

17. The Board should consult with the Open Meeting Law Enforcement Team within the Attorney General's Office to determine what type of manner restrictions it can place on speakers during the call to the public, including whether it can prohibit speakers from discussing information the Board is required to keep confidential.

Not Implemented—Although the Board reported that it has not yet consulted with the Open Meeting Law Enforcement Team, it chose instead to consult with its newly assigned Assistant Attorney General representative.

The Board developed guidance for members of the public who wish to participate in calls to the public that explains the purpose of the call to the public and outlines key elements of due process and confidentiality for public speakers to observe during their comments. As discussed in recommendation 16, we reviewed 2 of 6 Board meetings held between January and September 2025, including the calls to the public. Our review of the calls to the public during these 2 Board meetings found that the Board did not interfere with or limit any public comments. We will further assess the Board's implementation of this recommendation during our next followup.

18. The Board should develop and implement a policy and revise its call to the public script to specify the time, place, and manner restrictions for calls to the public that are consistent with guidance it receives from the Open Meeting Law Enforcement Team within the Attorney General's Office.

Implementation in process—In conjunction with the guidance document for public participation in the call to the public explained in recommendation 17, Board staff also reported reviewing the policies of other health profession regulatory boards concerning call to the public guidance, developed a Board meeting conduct policy, and revised the Board's call to the public script accordingly. The revised script identifies the limitations of the call to the public—such as that the

⁵ Arizona Attorney General Agency Handbook, Chapter 7, section 7.6.7.

⁶ A.R.S. §38-431.02(B). If an executive session is scheduled, a notice of the executive session shall state the provision of law authorizing the executive session

Board cannot take action on matters raised during call to the public unless explicitly on the meeting agenda—and asks that speakers refrain from discussing personal health information, names of patients, or making speculative statements about open investigations. We will further assess the Board's implementation of this recommendation during our next followup.

19. The Board should post unaltered meeting recordings as required by statute, and cease the practice of deleting information from recordings.

Implementation in process—The Executive Director reported that the Board has posted unaltered meeting minutes for all 6 Board Meetings held between January and September 2025. Additionally, our review of 2 of these 6 meetings reviewed did not identify any indications that information that had been deleted previously, such as the names of patients, had been deleted. However, as described in recommendation 16, 1 of the 2 recordings reviewed was incomplete, starting in the middle of the Board's discussion of an agenda item. We will further assess the Board's implementation of this recommendation during our next followup.

20. The Board should provide regular training, during onboarding and annually, for all Board members and staff on Arizona's open meeting law, including specific requirements for meeting notices, agendas, executive sessions, minutes, and the call to the public.

Implementation in process—As of October 2025, our review of Board training documentation found that the Board has adopted a new annual Board member training policy, discussed in recommendation 9, that specifies that the Board will provide training on compliance with Arizona Open Meeting law every year, and the Board conducted a special Open Meeting Law training in December 2025. At the same time, the Board adopted a policy on confidentiality and implemented a memo that accompanies monthly Board meeting materials to members detailing the Board's confidentiality requirements. Specifically, the memo includes the open meeting law requirement of limiting discussion of cases before the Board to during public meetings and as detailed on the agenda. Finally, the Board has drafted a separate memo from the Executive Director to be sent to Board Members reminding members of open meeting law confidentiality requirements, such as withholding personally identifiable information—including patient names—from public discussion, the Board's practice of the Board Chair giving a pre-meeting reminder of confidentiality rules, handling public comments that mention confidential information by immediately reminding the speaker to avoid disclosing confidential information, the purpose of executive sessions for discussing confidential details, the requirement to post complete, non-redacted meeting minutes, and the prohibition on photocopying, sharing, or otherwise disseminating Board materials. We will further assess the Board's implementation of this recommendation during our next followup.

Finding 7: Board’s Executive Directors—past and present—have not established processes for ensuring consistency in some Board practices and communicating changes in Board practices to licensees and the public, resulting in several issues we identified during this audit and potential confusion among licensees and the public.

21. For all complaints received moving forward, the Board should use the Disciplinary and Sanctioning Guidelines adopted in July 2024 when adjudicating complaints to determine appropriate disciplinary and nondisciplinary actions to address violations.

Implementation in process—While the report acknowledged that the Board had developed the Disciplinary and Sanctioning Guidelines in July 2024, the Board reported being in the process of updating the guidelines to reflect and incorporate some of the recommendations from our December 2024 special audit report, which was issued after adoption of the guidelines in July 2024. Specifically, the Board intends to add assessment tools, such as the psychosexual evaluation discussed in recommendation 6, into the guidelines. The Board plans to adopt an updated Disciplinary and Sanctioning Guidelines document in spring 2026, and is preparing to do so by developing and implementing a remediation disciplinary matrix, which is a quick-reference guide with additional information. We will further assess the Board’s implementation of this recommendation during our next followup.

22. The Board should develop and provide training to Board members regarding key Board functions, including but not limited to complaint handling, the State’s open meeting law, and authorized lobbying/advocacy activities.

Implementation in process—The Board has adopted 2 new policies pertaining to Board member training, including an annual Board member training policy discussed in recommendations 9 and 20, and a new Board member onboarding policy. The Board’s Executive Director is responsible for developing and providing the training or arranging for training to be provided by another state agency or third party.

The annual training policy establishes the types and timing of trainings for Board members, to be conducted annually. Training topics include:

- Board structure, roles, and ethical conduct;
- Licensing and certification processes;
- Investigations and complaint handling, including complaint receipt, review, jurisdiction, investigations, subpoena authority, and permissible scope;
- Disciplinary and non-disciplinary action and consistent application of statutes and rules;
- Formal proceedings and legal frameworks;
- Special investigation considerations, including handling of allegations of evidence of criminal wrongdoing and the use of psychosexual evaluations;

- Board operations, communications, and public access, including Open Meeting Law Compliance and public records; and
- Rules and guidance concerning legislative engagement, lobbying, and advocacy.

This policy also provides some information on Board members' roles, communication protocols, professional conduct, and training compliance expectations, and requires the Executive Director to track all training activity and review this information annually for inclusion in the Board's Annual Report that it posts to its website.

The Board's new member onboarding policy outlines mandatory training that the Executive Director will provide to new Board members, including a general orientation that includes: An overview of the agency, national affiliations of the Board, a review of pertinent statute and rule, licensing and certification requirements and processes and other applications and registrations regulated by the Board, examinations for chiropractic licensure, and the Board's regulation and enforcement of various requirements. The Board's new member training materials also comprehensively cover Board meeting protocols and best practices, including parliamentary procedures, the role of the Board Chair, agenda and Boardroom management, and understanding the general operations and guiding rules and practices of meetings. The policy also requires new members to take CLEAR Board Member Training—Level Two, which is a third-party training program for new members of government regulatory boards, within 1 year of their appointment as part of ongoing onboarding and professional development.

As discussed in Recommendation 9, the Executive Director plans to prepare training materials for all training topics by spring 2026. We will further assess the Board's implementation of this recommendation during our next followup.

23. The Board should continue to develop and implement its IT system, including developing and implementing management reports for overseeing its licensing and complaint-handling processes.

Implementation in process—In November 2025, the Board implemented a different licensing platform because of the delayed implementation of the system that was under development at the time of the audit, prohibitive costs for building this system to meet the needs outlined by the audit, and significant cost increases for the coming years. Finally, the Board reported having working sessions with the developer twice a week for 2 hours since September 2025 to ensure the new system aligns with the needs of the Board. We will further assess the Board's implementation of this recommendation during our next followup.

24. The Board should conduct research to identify standard processes or recommended practices for developing substantive policy statements, including but not limited to contacting and requesting information from other State agencies and health regulatory boards about their substantive policy statement processes.

Implementation in process—The Board reviewed the processes of other health profession regulatory boards, including the Arizona Board of Medical Examiners, the Arizona State Board of Nursing, and the Arizona Board of Behavioral Health Examiners, related to drafting, approving in open meeting, and publishing substantive policy statements. Based in part on this research, the

Board adopted a charter for a new standing Board Legislative and Governance Committee, which is responsible for monitoring, evaluating, and reporting on proposed legislation, regulatory changes, and policy changes impacting the chiropractic profession and Board operations. This includes matters addressed in the December 2024 special audit report, such as conflict-of-interest requirements, discuss and develop Board positions on legislation or regulatory matters, Board governance, and the development of substantive policy statements. The Board also developed guidance for this Committee in June 2025, which defines one of the Committee's purposes as developing substantive policy statements. The guidance document also outlines steps for developing substantive policy statements, including reviewing relevant statutes, administrative code and case law, as well as national and professional guidelines and other state board practices, consulting with stakeholders or subject matter experts, drafting questions and structured agendas to facilitate Board discussion of the substantive policy statements, and presenting recommendations for proposed substantive policy language to the Board. The guidance further defines pertinent documentation for Board staff to provide the Committee, such as relevant laws or regulations, literature, public input, legal guidance, and also identifies steps for maintaining transparency and engaging the public. We will further assess the Board's implementation of this recommendation during our next followup.

25. The Board should develop and implement policies and procedures for creating and using substantive policy statements and other methods for communicating important information about its activities and practices to external parties, including but not limited to clarifying and/or communicating changes to its practices.

Implementation in process—See explanation for recommendation 24. The Board also reported that it is currently updating its website to include a page for communicating important information about its activities and practices to external parties. According to the Board, it is considering developing a quarterly newsletter to post on its website, and will also post the Board's Annual Report, and annually prepare and post an educational legislative summary of the previous year's legislative session, to be drafted by the new Legislative and Governance Committee. We will further assess the Board's implementation of this recommendation during our next followup.

26. The Board should discontinue using emails to licensees to communicate information that instead should be communicated through substantive policy statements.

Implementation in process—As explained in recommendation 14, the Board reported it has ceased advocacy campaigns and has not issued a mass communication to licensees since October 2024. As explained in recommendation 24, the Board established a new standing Legislative and Governance Committee in part to develop substantive policy statements. According to the Board, it will develop substantive policy statements when necessary in lieu of sending emails to licensees. The Board also reported that it is in the process of developing and implementing policies for tracking legislation that may impact its licensees, creating guidelines for communicating regulatory updates to external parties in a neutral and unbiased manner, and implementing a specific section on the Board's website for posting updates outside of substantive policy statements, as explained in recommendation 25. We will further assess the Board's implementation of this recommendation during our next followup.

27. The Board should review prior communications issued through less formal methods and determine whether those communications should have been issued as a substantive policy statement and, if so, issue a substantive policy statement on the matter.

Implementation in process—The draft guidance for the Legislative and Governance Committee discussed in recommendation 24 includes a list of topics that the Committee will prioritize for developing substantive policy statements previously addressed by the Board through less formal communications, including email correspondence and notices posted on its website, as well as topics addressed in our December 2024 audit report. The specific topics identified in the draft guidance as a priority include psychosexual evaluations, 48-hour referral of criminal wrongdoing, fee splitting, business entity registration, and others. However, because the Legislative and Governance Committee has not yet formally addressed these matters, we will further assess the Board's implementation of this recommendation during our next followup.

Finding 8: Board did not comply with some State conflict-of-interest requirements and recommended practices, increasing risk that employees and public officers had not disclosed substantial interests that might influence or could affect their official conduct.

28. The Board should revise and implement its conflict-of-interest policies and procedures to help ensure compliance with State conflict-of-interest requirements and implementation of recommended practices, including:
- a. Requiring Board members and employees to complete a conflict-of-interest disclosure form upon appointment/hire, including attesting that no conflicts exist, if applicable, and reminding them at least annually to update their disclosure form when their circumstances change.
 - b. Storing all substantial interest disclosures, including disclosure forms and meeting minutes, in a special file available for public inspection.
 - c. Developing and implementing a process to track Board member/employee completion of conflict-of-interest disclosure forms, including the date the form was completed.
 - d. Establishing a process to review and remediate disclosed conflicts.
 - e. Providing periodic training on its conflict-of-interest requirements, process, and disclosure form, including providing training to all Board members and employees on how the State's conflict-of-interest requirements relate to their unique programs, functions, or responsibilities.

Implementation in process—The Board has taken multiple steps to implement this multi-faceted recommendation, including adopting a policy for ensuring compliance with Arizona state conflict-of-interest requirements that requires all Board members and employees to complete the ADOA Conflict of Interest Disclosure Form, which includes an “affirmative ‘no’” attestation, upon appointment or hire, annually in July, and whenever circumstances change; drafting a memo to Board members and staff communicating the new policy; preparing a single dedicated special file

containing annual disclosure forms and Board meeting recusals; developing a conflict-of-interest tracking sheet to track Board member and employee conflict-of-interest disclosure forms, including the date completed; and establishing conflict-of-interest training materials.⁷ Additionally, the Board conducted conflict of interest training in October 2025. Given the recent adoption of the policy, we will further assess the Board's implementation of this recommendation during our next followup.

⁷ A.R.S §38-509. Every political subdivision and public agency subject to this article shall maintain for public inspection in a special file all documents necessary to memorialize all disclosures of substantial interest made known pursuant to this article.

Additional issues and recommendations we identified during our follow-up review

While performing our followup audit work, we identified problems in 2 additional areas that require corrective action. Below, we describe both and make 4 additional recommendations to the Board.

Board incorrectly posted information longer than allowed by statute and did not post other information required by statute.

Statute requires the Board to post disciplinary and non-disciplinary actions taken by the Board on its website for up to 5 years, excluding dismissed complaints and nondisciplinary letters of concern and advisory letters, which must be available via public request.^{8,9} While reviewing the Board's website for information pertinent to this follow-up review in September 2025, we found that the Board's webpage for disciplinary actions contains full documentation for 66 disciplinary actions taken more than 5 years ago, between 2015 and 2019, contrary to statute. The Board reported being unaware of this content still being available on the website, and we confirmed the noncompliant information had been removed as of November 2025. Further, although the Board reported posting nondisciplinary actions to the Board's licensee directory, there was no evidence of Board action for 2 licensees marked as having received nondisciplinary sanctions in the Board's complaint log. The Board reported that this issue was due to challenges with its complaint handling system, which the Board ceased using in November 2025, when it transitioned to a new licensing system.

Additional recommendations to the Board:

29. Remove disciplinary and non-disciplinary actions more than 5 years old from the Board's website and licensee directory.
30. Develop and implement procedures for timely posting all disciplinary and non-disciplinary actions to the Board's website and/or licensee directory; and for removing all disciplinary and non-disciplinary actions to the Board's website and licensee directory after 5 years.

Board did not maintain a complete log of public records requests received and lacked policies and procedures for how to respond to requests.

Although the Executive Director developed and implemented a digital tracking sheet for public records requests in March 2025, the Board did not maintain one prior to this date, and was thus out of compliance

⁸ A.R.S. §32-3214(B). All disciplinary actions against a licensee or certificate holder shall be available on the health profession regulatory board's website for not more than five years. If a health profession regulatory board issues a final nondisciplinary order or action, the record of the final nondisciplinary order or action shall be made available on the board's website for not more than five years. Letters of concern and advisory letters may not be made available on the website but a copy of such letters are available to the public pursuant to section 39-121 and shall be provided to any person on request.

⁹ A.R.S. §32-3214(A). If a health profession regulatory board dismisses a complaint, the record of that complaint is available to that regulatory board and the public pursuant to section 39-121 but may not appear on the board's website. For the purposes of this subsection, "dismisses a complaint" means that a board does not issue a disciplinary or nondisciplinary order or action against a licensee or certificate holder. A pending complaint or investigation may not be disclosed to the public.

with the statutory requirement to maintain adequate documentation of official activities.¹⁰ Additionally, the Board provides a fillable public records request form on its website, but did not require individuals to use the form to submit a formal request and the website does not include a statement pursuant to statute that a person may obtain additional public records relating to any licensee or certificate holder by contacting the Board directly.¹¹ According to the Executive Director, in an attempt to expeditiously respond to public records requests without creating a burden on members of the public, the Board had taken a less formal approach to public records requests. In doing so, it did not require the public to complete and submit the form, formally document requests, or perform other administrative tasks designed to ensure compliance with statute.

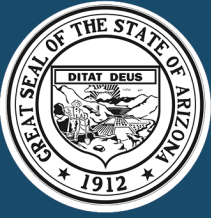
Failing to adequately track the Board's receipt and response to public requests for information increases the risk that the Board will not comply with statutory requirements to account for its official activities and duties, timely respond to public information requests, and provide the public with licensee information that may inform personal health and safety decisions. For example, our review identified 1 instance in which the Board received a public records request in Fall 2024, later realized in March 2025 that it had failed to respond to the request, and ultimately provided documentation to the requestor by October 2025. A contributing factor to this delay was that the request for information was submitted by a party to a lawsuit filed against the Board. The Executive Director reported providing the request to in-house counsel and then experiencing turnover of counsel. Because the request was never logged or tracked, the Executive Director neglected to follow up with the Attorney General's office on the status of their review of the request and only became aware when the requestor raised the matter in March 2025. At this time, the Executive Director established the tracking log and worked with the Attorney General's Office to prepare the Board's response to the request.

Additional recommendations to the Board:

31. Develop and implement policies and procedures for timely receiving, acknowledging, and responding to public records requests according to statute.
32. Post a statement to its website pursuant to A.R.S. §32-3214(C) that a person may obtain additional public records related to any licensee or certificate holder, including dismissed complaints and nondisciplinary actions and orders, by contacting the board directly.

¹⁰ Pursuant to A.R.S. §39-121.01(B), all officers and public bodies shall maintain all records, including records as defined in A.R.S. §41-151, reasonably necessary or appropriate to maintain an accurate knowledge of their official activities and of any of their activities that are supported by State monies.

¹¹ A.R.S. §32-3214(C). If a health profession regulatory board maintains a website, the board must display on its website a statement that a person may obtain additional public records related to any licensee or certificate holder, including dismissed complaints and nondisciplinary actions and orders, by contacting the board directly.



ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

DATE: February 17, 2026

TO: Representative Matt Gress, Chairman
Senator Mark Finchem, Co-chairman
Members, JLAC

FROM: Lindsey Perry, Auditor General

SUBJECT: Office presentation of the Arizona school districts financial risk processes and results, January 2026 Financial Risk Analysis Report

Background

Arizona Revised Statutes §41-1279.03 requires the Office to monitor school districts to determine the percentage of every dollar spent in the classroom. We publish these results and spending at both the State and individual district levels in our annual school district spending analysis. To supplement this analysis, we created the school district financial risk analysis to provide the Legislature, school districts, the public, and other stakeholders with the most current data available for 10 financial risk measures to monitor each school district's overall risk of not being able to operate within its available budget constraints and cash resources. Our analysis can help district decision-makers recognize the need to take action to improve their financial position.

Key takeaways from this year's analysis

- ▶ As of January 2026, 9 of 207 analyzed Arizona school districts are at the highest financial risk, and 9 are approaching the highest-risk category. This represents an increase from last year's report when our analysis identified 2 highest-risk school districts and 7 approaching the highest risk category.
- ▶ Compared to our January 2025 report, in this year's report, the number of school districts State-wide at high risk by measure increased for 7 of the 10 financial risk measures.
- ▶ Districts experiencing declining student counts along with declining budget limit reserves and cash resources may need to immediately reduce costs to operate within budget constraints and cash resources. Such districts with multiple risk areas should analyze the cause(s) of their risks and identify and implement appropriate risk-mitigation actions. Eight of the 9 highest-risk districts developed a written financial risk action plan to mitigate their risks. The plans are available on each district's page, other than Wilson Elementary School District, which instead describes why the District has not submitted a plan.

We provide our analysis results and the underlying data for the highest-risk school districts, school districts approaching the highest-risk category, and other Arizona school districts in an interactive, user-friendly, web-based format. This format will allow you to easily view detailed

information for a single district or more summarized information for all districts State-wide, by county, or by legislative district. The website also explains the measures analyzed and how the analysis can be used to better understand a district's overall financial risk. To review the full risk analysis, please click on the following hyperlink: [Overview - School district financial risk analysis](https://frisk.azauditor.gov) or visit our website at <https://frisk.azauditor.gov>.

We were asked to present a summary of the January 2026 school district financial risk analysis, and Meghan Hieger, Accountability Services Division Director, will provide an overview of information from that report.

Attachment A includes a summary of the high-risk measures for the highest-risk school districts and school districts approaching the highest-risk category.

Attachment B includes the highest-risk school districts and school districts approaching the highest-risk category by legislative district(s) and applicable JLAC member(s).

Attachment C includes the guidance we provide on our website for all districts completing the financial risk action plan template.

Attachments D through K are each of the highest-risk school district's submitted action plans

Action required


None. Presented for JLAC's information only.

Attachment A

Summary


January 2026 analysis overview













































School district financial risk analysis summary results

 = District is high risk for the corresponding measure

School district	Change in weighted student count	Budget limit reserve—Operating budget	Budget limit reserve—Capital budget	Financial position—General Fund operating reserve ratio	Financial position—General Fund operating margin ratio	Financial position—General Fund change in fund balance	Capital monies redirected to operations	Small school budget limit adjustment	Frozen tax rate	Receivership
Districts in the highest-risk category										
Antelope UHSD										
Hayden-Winkelman USD										
Isaac ESD										
Joseph City USD										
Palominas ESD										
Santa Cruz ESD										
Sierra Vista USD										
Tucson USD										
Wilson ESD										
Additional context										
Total number of districts at high risk for each measure	69 of 207	73 of 207	74 of 207	15 of 207	50 of 207	56 of 207	51 of 207	9 of 207	10 of 207	2 of 207

School district financial risk analysis summary results

 = District is high risk for the corresponding measure

School district	Change in weighted student count	Budget limit reserve—Operating budget	Budget limit reserve—Capital budget	Financial position—General Fund operating reserve ratio	Financial position—General Fund operating margin ratio	Financial position—General Fund change in fund balance	Capital monies redirected to operations	Small school budget limit adjustment	Frozen tax rate	Receivership
Districts approaching the highest-risk category										
Balsz ESD										
Chino Valley USD										
Fountain Hills USD										
Hyder ESD										
Mammoth-San Manuel USD										
Round Valley USD										
Sacaton ESD										
Scottsdale USD										
Young ESD										

How to determine if your district is at financial risk

For our school district financial risk analysis, we analyze the most current data available for 10 financial risk measures in the 7 categories listed below to identify the Arizona districts with the highest financial risk.

Change in weighted student count

Is the number of students attending the district, used to calculate base funding, declining substantially and causing revenue decreases?

Budget limit reserves

Is the district substantially diminishing its Maintenance and Operation and Unrestricted Capital Outlay Funds' budget limit reserves; has the district exceeded its legal budget limits in the most recently completed fiscal year or on average over the last 5 years; or does the district have an unfunded budget limit reserve?

Financial position

Is the district currently spending more in its general operating fund than it is receiving to operate, causing substantial declines in operating reserves? Or has the district's spending in recent years led to negative balances in its general operating fund?

Capital monies redirected to operations

Is the district redirecting a substantial portion of their intended capital funding to current operational spending leaving lower-than-average resources for capital needs?

Small school budget limit adjustment

Has the district recently lost the ability to increase its budget limit with a small school adjustment or is the district's small school adjustment at least 10 percent unfunded?

Frozen tax rates

Has the district's property tax rate been frozen by the property tax oversight commission based on the constitutional limit for residential property taxpayers?

Receivership

Is the district operating under a State Board of Education appointed receiver?

Attachment B

Highest-risk Districts

**By legislative district(s)
and JLAC member(s)**

January 2026 highest-risk school districts and school districts approaching the highest-risk category by legislative district

School district	Legislative district(s)	JLAC member(s), if applicable
Highest-risk districts		
Antelope Union High School District ¹	23 and 25	<ul style="list-style-type: none"> • Senator Dunn • Representative Carbone • Representative Peña
Hayden-Winkelman Unified School District	7	
Isaac Elementary School District ²	26	<ul style="list-style-type: none"> • Senator Bravo
Joseph City Unified School District	6 and 7	
Palominas Elementary School District ³	19 and 21	<ul style="list-style-type: none"> • Representative Stahl-Hamilton
Santa Cruz Elementary School District	21	<ul style="list-style-type: none"> • Representative Stahl-Hamilton
Sierra Vista Unified School District	19	
Tucson Unified School District	16, 17, 18, 20, 21, and 23	<ul style="list-style-type: none"> • Representative Peña • Representative Stahl-Hamilton • Representative Villegas
Wilson Elementary School District	11	<ul style="list-style-type: none"> • Senator Miranda
Districts approaching the highest-risk category		
Balsz Elementary School District	8	
Chino Valley Unified School District	1	<ul style="list-style-type: none"> • Co-chair Finchem
Fountain Hills Unified School District	3	
Hyder Elementary School District	25	<ul style="list-style-type: none"> • Senator Dunn • Representative Carbone
Mammoth-San Manuel Unified School District	7	
Round Valley Unified School District ³	6	
Sacaton Elementary School District	16	
Scottsdale Unified School District	3, 4, and 8	<ul style="list-style-type: none"> • Chair Gress
Young Elementary School District	7	

¹ High risk since December 2023.

² High risk since December 2020.

³ Approaching the highest-risk category in January 2025.

Attachment C

Guidance








Financial risk action plan

About our analysis and guidance for using the template

Our school district financial risk analysis uses the 10 measures listed below to identify the Arizona districts with the highest financial risk. Collectively, the measures relate to a district's overall risk of not being able to operate within its available cash resources and budget constraints. Districts with severe budgetary overspending and/or accumulated cash deficits may be eligible for receivership in accordance with Arizona Revised Statutes (A.R.S.) §15-103. District decision-makers can use the information provided in the analysis to better understand district financial risks when evaluating district budget- and finance-related decisions. Based on our meetings with Arizona's previous highest-risk districts, we developed the action plan template as a tool that any district can use to take action to reduce its financial risks. The template provides a step-by-step process district management can use to (1) identify the district's financial risk areas; (2) identify related root causes; (3) develop planned mitigating actions and desired outcomes; (4) determine and analyze the mitigating actions' financial impacts; and (5) place mitigating actions into an implementation timeline and monitor completed actions' impacts. Districts can download our [financial risk action plan template](#) in Word.

Financial risk measures

Each financial risk measure below is described on the [Measures page](#) of our analysis website. These descriptions address why the measure is an important financial risk indicator, background information for those less familiar with the measure's impacts, and how the measure data was obtained and analyzed.

Financial risk measures	
	Change in weighted student count
	Budget limit reserve —Operating budget Budget limit reserve —Capital budget
	Capital monies redirected to operations
	Frozen tax rate
	Financial position —General Fund change in fund balance Financial position —General Fund operating margin ratio Financial position —General Fund operating reserve ratio
	Small school budget limit adjustment
	Receivership

Completing the template

Step 1—Identify the district's financial risk areas

Review your district's page of our [School district financial risk analysis website](#) and the related measure descriptions for any identified high-risk measures. Also, to proactively address any measures showing increasing risk that are not yet identified as high-risk in our analysis, review your district's other measures in the analysis to determine if your district should include 1 or more of those measures in the action plan template. For example, if weighted student count is declining but not yet identified as high risk, you may consider adding mitigating actions to your plan before that area becomes high risk.

Include each district-identified risk area in the template, starting with your district's area of greatest concern. Some risk areas may relate to one another, such as operating and capital budget limit reserves or the 3 General Fund measures (financial position) and can be combined into 1 risk area on the template, if preferred.

Step 2—Identify related root causes

Understanding why certain financial risks are occurring in your district is key to developing strategies to mitigate those risks. Some risk-area causes may be easy to identify, while others may be identified only through further information gathering and financial analysis. For example, decreasing student count may be related to known population shifts or other unknown factors that could be determined by further researching or analyzing data for patterns related to declining student counts. Some previous highest-risk districts indicated they completed additional parent and community outreach, such as surveys, to help them identify causes for student count decreases so they could plan potential mitigating actions.

Along with identifying the cause(s), indicate whether each identified cause is seen as a temporary or permanent situation in the template's cause section, and document when your district anticipates a change for any cause that appears to be a temporary situation. Different actions may be needed to address temporary and permanent financial risk causes.

Examples of causes identified by previous highest-risk districts are listed for each risk measure on the next page.

Risk identified	Causes identified by highest-risk districts
Decreasing weighted student counts	<ul style="list-style-type: none"> • Competition from other schools in their area opening or offering different academic or extracurricular programs or services. • Changes in the area’s school-age population, including loss of key employers, or demographic shifts away from families with school-aged children.
Decreasing operating/capital budget limit reserves, budgetary overspending, or unfunded budget limit reserves	<ul style="list-style-type: none"> • Difficulty estimating student population changes, especially with declining enrollment, leading to spending that is not aligned with decreased student-count-generated revenues. • Incurring a large unanticipated cost without adequate reserve to cover the cost. • Reacting too slowly to reduce expenditures after losing a revenue source, such as a voter-approved override or grant funding. • Mistakes in calculating budget limits or estimating revenues, especially related to setting small school budget limit adjustments.
Financial position—decreasing or low levels of General Fund reserve and/or General Fund spending exceeding revenues	<ul style="list-style-type: none"> • Budgetary overspending for any reason, including those listed in the section directly above. • Property tax delinquencies causing less property tax revenue to be received than anticipated for the year. • Not adjusting budgeted amounts to stay within amounts provided from all revenue sources, especially when the district has a frozen property tax rate.
Frozen tax rate	<ul style="list-style-type: none"> • Including a small school adjustment in their budget as allowed by State law but doing so to an extent that causes the tax needed to support the district’s budget to exceed the constitutionally allowable limit resulting in a frozen tax rate. • Levying for allowable desegregation spending based on State law, but doing so in the primary property tax rate.
Unfunded small school budget limit adjustment	<ul style="list-style-type: none"> • Continuing to include or increasing a small school budget limit adjustment as allowed by State law after the district’s tax rate has been frozen, as described above. • Property tax delinquencies causing less property tax revenue to be received than anticipated for the year.
Capital monies redirected to operations	<ul style="list-style-type: none"> • Attempts to maintain operating spending when total revenues decreased, generally from student count decreases. • Increasing support for operating spending when a voter-approved capital override was available to “replace” the reallocated monies.
Receivership	<ul style="list-style-type: none"> • Spending beyond available budget capacity and cash resources to an extent that the district cannot meet payroll or other obligations when due without assistance from the State.

Step 3—Develop planned mitigating actions and desired outcomes

Actions in this section of the template should include specific steps that will be taken to directly address 1 or more of the identified risks/causes and the related desired outcomes. For example, identifying specific spending cuts or new revenues, such as new grants, for the current or next year can help bring spending in line with available cash and budget capacity to help address previous budgetary overspending or deficit General Fund balances and may also be the only actions that can address the risk caused by more permanent student count decreases.

Example actions identified by previous high-risk districts are listed below without assigning them to related risks/causes as many of the actions noted may be helpful in addressing more than 1 identified risk/cause:

Improving budgeting strategies

Look at more demographic information to inform budget projections. Review identifiable trends in district revenues and spending to ensure budget decisions align spending to realistic revenue projections. Develop contingency plans to implement in stages, as needed, if budget capacity decreases or increases from the original projection throughout the year.

Reducing spending to align with revenues or to recover from prior years' overspending

Since employee salaries and benefits are districts' largest operating spending areas, many previous high-risk districts identified reducing staffing costs as a necessary step to align spending with available revenues. Districts have accomplished this through a combination of not replacing employees when vacancies occurred, reducing positions to part-time, or eliminating filled positions. Some staff reductions were offset by using contracted vendors or through partnering with nearby districts to share costs and services. Such agreements were used for food service, transportation, student support services, and other administrative and instructional positions. One district reduced overtime costs by implementing an electronic time-clock system. Other districts reduced costs by making changes to employee benefit options, including capping district contributions or changing providers. A few districts closed campuses based on long-term student count declines, which resulted in both personnel and other operating and capital cost reductions.

Sustaining and growing student counts

Identifying existing and potential school families' academic and extracurricular program interests through outreach activities, such as surveys, and implementing new educational programs or educational enrichment activities, including extended before- and aftercare activities. Advertising or reaching out to area employers and the community to promote existing and new educational programs.

Increasing nonstudent-count-generated revenue

Applying for new federal and State grants and seeking voter-approved budget overrides when community support for such measures appeared to exist. One district sold land to generate one-time revenues.

Applying for supplemental State aid

Districts with more than 10 percent primary property tax delinquencies can apply for supplemental State aid from the Arizona Department of Education under A.R.S. §15-980. While this is not a new source of revenue, it provides cash resources for allowed spending based on available budget capacity and can reduce borrowing costs. Districts repay the supplemental State aid when the delinquent taxes are received, either through State funding reductions or direct payments to the State Treasurer.

Step 4—Determine and analyze the mitigating actions' financial impacts

Your district should determine the estimated financial impact of the planned mitigating actions to ensure planned actions will reduce the district's financial risk. For example, if a district overspent its operating budget limit by \$300,000, it should identify revenue increases or spending reductions of at least \$300,000 to address the full financial impact of the identified risk. Your district should analyze all risks and actions together to ensure its planned mitigating actions are sufficient to address current and future projected risks. If your district will implement planned mitigating actions over more than 1 year, your district should identify financial impacts by fiscal year.

Step 5—Place mitigating actions into an implementation timeline and monitor completed actions' impacts

After identifying your district's planned actions to reduce its financial risks, developing a timeline for implementing those actions can increase the likelihood that your district will take the actions and successfully address its financial risks. The template's timeline section provides the ability to document planned actions to take immediately (within next 3 months), and in the short-term (within next 4 to 12 months) and long-term (more than 12 months) time frames. Some actions, such as reducing spending, may need to be broken into different timeline actions based on research or additional information needed to determine the exact spending to reduce or eliminate.

After taking the actions, your district should document the actual financial impact, comparing it to the estimated impact. If your district needs further action to reach the desired financial impact, your district should add action steps to its implementation timeline.

Attachment D

Financial Risk Action Plan

Antelope Union High School District

Financial risk action plan

For more information about this template or the Arizona Auditor General's financial risk analysis, download our financial risk action plan [guidance PDF](#).

School district name: Antelope Union High School District

Date: 1/8/2026

Risk area 1

Risk area(s):

Budget Limit Reserve – Operating Budget

Identified causes:

The District overspent its operating budget Limit in FY 2023 and for several years prior to FY 2023 due to:

1. Poor management, budget planning, and spending oversight.
2. USFR Non-compliance. District lacked adequate internal controls and policies and procedures that if properly implemented would have provided the District with tools to monitor spending in accordance with budget limits.
3. Mismanaged federal and state grants that resulted in disallowed reimbursement requests, resulting in unbudgeted operating funds expenditures.
4. Adopting a free lunch program in FY 2020, which resulted in operating funds subsidizing the lunch program costs that were not adequately accounted for in operating fund budgets.
5. District failed to maximize its operating budget limits by not: 1) reporting proper Group B designations for special education students, 2) not reporting teacher years of experience.

Planned mitigating actions:

1. State Board of Education placed the District in receivership on June 26, 2023.
2. FY 2024 – District's mitigating actions under the receivership:
 - a. FY 2024 budget planning to eliminate prior year over expenditure through reduced operating fund expenses, including eliminating FY 2023 encumbered funds deemed not necessary, eliminated all overtime, elimination of certain stipends, obtained grants to supplement increased special needs student costs, reduced hourly staffing costs and

eliminated 100% free lunch program reducing the amount of operating funds required to supplement food program. This resulted in the District eliminating prior year operating budget over expenditure and ending the year with a small budget reserve.

- b. Implemented a corrective action plan to bring the district USFR compliant and implement internal controls and policies and procedures to minimize the risk of overspending the operating budget capacity.
- c. Regularly monitored expenditures and encumbered funds to assure District was spending within its operating budget capacity.
- d. Timely and accurate reporting of teacher years of experience to maximize operating budget capacity.

3. FY 2025 – District’s mitigating actions:

- a. FY 2025 Budget planning included expending less than operating budget capacity to increase the budget limit reserve which included a reduction in 1.5 FTE staff. This resulted in the District building an operating budget limit reserve at the end of FY 2025 of approximately \$216,000.
- b. Continued monitoring of expenditures and encumbered funds to assure District was spending within its operating budget capacity.

4. FY 2026 – District mitigating actions:

- a. FY 2026 Budget planning included expending less than operating budget capacity to increase budget limit reserve and the District reduced the District level employees by 1 FTE.
- b. Continued monitoring of expenditures and encumbered funds to assure District is spending within its operating budget capacity before approval of any post budget purchase orders.

5. FY 2027 and thereafter:

- a. Budget planning to include an annual budget limit reserve. The reserve is treated as an emergency fund, should the District have an unanticipated cost in any fiscal year.

6. Long-term: District is planning to ask the voter to approve a 15% general fund override.

Passage of the override would generate approximately \$395,000 in additional operating Budget Capacity that would allow the District to improve educational and community programs and increase operating budget limit reserves.

Estimated financial impact of planned mitigating actions:

- 1. FY 2024 Actions – Operating budget limit reserve improvement of \$52,232 resulting in an operating budget reserve of \$13,647.
- 2. FY 2025 Actions – Operating budget limit reserve improvement of \$177,758 resulting in an operating budget reserve of \$216,343 or an operating budget reserve balance of 8.1% of FY 2025’s operating budget limit.

3. FY 2026 Actions – Operating budget reserve of between 5.0% and 10% of FY 2026 operating budget limit. Currently estimated operating budget reserve for FY 2026 is between \$139,143 and \$278,287.

Risk area 2

Risk area(s):

Financial position – General Fund change in fund balance
General Fund operating reserve ratio
General Fund operation margin ratio

Identified causes:

For a number of FYs prior to and including FY 2023 the District's total expenditures exceeded total revenues resulting in the treasurer registering warrants to cover District's over expenditures. The District's outstanding registered warrants (cash shortages) averaged over \$1,000,000 for the FYs ended 2018 – 2023. FY end 2023 the general fund's cash shortage accounted for \$472,736 of a total cash shortage of approximately \$905,000 the cash shortages were caused by:

1. District overspending budget limits and annual revenues over a number of years as a result of poor management, poor budget planning, and spending oversight.
2. Mismanaged federal and state grants that resulted in disallowed reimbursement requests, resulting in unbudgeted general funds expenditures that exceeded annual revenues.
3. District continuously spent to or over budget limits, without any consideration of prior years' cash shortages.
4. In FY 2025, the state court determined that the Arizona Department of revenue and Yuma county had overstated assessed property values of Agua Caliente Solar, LLC from tax years 2016 to 2024 by millions of dollars each year resulting in over taxation. The State and Yuma county was ordered to refund Aqua Caliente Solar, LLC for the over taxation for tax years 2016 through 2024 plus interest totaling over \$7.6 million dollars. The Yuma County treasurer refunded the Aqua Caliente using over \$1.2 million of the District's FY 2025 revenues resulting in understatement of the District's actual FY 2025 revenues.
5. In FY 2026, the state court determined that Arizona Department of revenue and Yuma county had overstated assessed property values of San Diego Gas & Electric Company from tax years 2020 to 2024. The Yuma County treasurer refunded the San Diego Gas & Electric Company using over \$92.000 of the District's FY 2026 revenues.

Planned mitigating actions:

1. State Board of Education placed the District in Receivership on June 26, 2023.
2. Receiver developed a plan to eliminate the cash shortages over a three to five-year period through a minimum reduction in annual operating costs and expenditures of \$100,000 in FY 2024 and \$200,000 each year thereafter.

- a. FY 2024 the District's general fund revenues exceeded the expenditures by approximately \$160,000.
 - b. FY 2025 the District's General Fund Revenues would have exceeded the expenditures by approximately \$316,000, if the tax judgment had not occurred (Actual District FY 2025 General Fund Revenues were equal to \$1,864,901 reported plus \$1,127,812 District Revenues withheld by county treasurer to reimburse Agua Caliente for over taxation in tax years 2016 through 2024). Therefore, it is the District's position that the Risk analysis does not accurately reflect the District's general fund risk for FY 2025 due to actions taken by the county treasurer, that the District had no control over. Furthermore, as discussed below, the District was entitled to the funds withheld by the Treasurer and will receive the funds in FY 2026.
3. Aqua Caliente over taxation - In FY 2025 the Receiver worked with the county assessor's office to obtain corrected County assessed values after adjustment for the over assessed values of Aqua Caliente for tax years 2016 through 2024. Then worked with ADE to correct the District's state aid entitlement for FYs 2017 through 2025 based on the corrected assessed values and worked with the County Superintendent's office to obtain a special assessment in tax year 2025 to recover the District's corrected tax levy amounts for tax years 2016 through 2024.
 4. San Diego Gas and Electric over taxation – The District is currently working to get ADE to recalculate the District's state assistance for FYs 2021 through 2025 based on corrected assessed values. The District will then request a special tax assessment in tax year 2026 to cover the balance of the \$92,000 FY 2025 revenues withheld by the county treasurer and the additional state assistance received from the state.

Estimated financial impact of planned mitigating actions:

1. FY 2026 – additional State assistance for FYs 2017 through 2025 based on adjusted assessed value due to assessors over valuation of Agua Caliente, received in July 2025 - \$768,238.
2. FY 2026 – special tax assessment for FYs 2017 through 2025 tax shortage related to assessors over valuation of Aqua Caliente - \$565,675.
3. FY 2026 – District budgeted and planned expenditures at approximately \$200,000 less than revenues (excluding Aqua Caliente revenue recovery).
4. FY 2027 – District budgeted and planned expenditures at approximately \$200,000 less than revenues.

Risk area 3

Risk area(s):

Capital monies redirected to operations

Identified causes:

1. FYs 2022 and 2023 – Capital funds redirected to operations to reduce Districts overspending of operating budget limits. Causes of overspent operating budget limits are identified in Risk area 1 above.
2. FY 2024 – The District had incremental operating costs pertaining to Receivership fees. Furthermore, the District did not conform to the requirements of a safety grant issued in FY 2023 and was required to reimburse the grant payments received through FY 2024 (unexpected operating fund expenditure). Finally, the District overspent its operating budget Limit in FY 2023. The combined additional costs required the District to redirect capital monies to operations.

Planned mitigating actions:

1. As discussed in Risk area 1 above the District budget plans currently include an operating budget reserve. In FY 2025 the District built an operating budget reserve of 8.1% of the operating budget limit.
2. The District's annual operating budget plan will include a budget reserve of between 5% and 10% of the annual budget. This should minimize the need for capital monies being redirected to operations for any unanticipated annual costs to the District.
3. To the extent that the District would incur an unanticipated necessary annual cost that would exceed the District's budgeted reserve, the District would reserve the right to redirect capital monies to the operations as allowed under the USFRs.

Estimated financial impact of planned mitigating actions:

1. \$0.00 capital monies being redirected to operations on an annual basis.

Risk area 4

Risk area(s):

Receivership

Identified causes:

The District was placed in Receivership on June 23, 2023 due to

1. The District consistently overspent its annual operating budget limit (see Risk area 1).
2. The District consistently had an annual negative cash balance of approximately \$1.0 million (see Risk area 2).
3. The District had not been USFR compliant since 2018.

Planned mitigating actions:

1. Receiver developed a plan to correct the District's identified causes that landed the District in Receivership over a 3-to-5-year period, which included:
 - a. Operating within District's annual budgets and eliminating prior years over expenditure of operating budget Limit. This included reduction of unnecessary expenditures, annual budget planning and creating internal controls and policies and procedures to assure the District's actual expenditures do not exceed annual operating budget limit.
 - b. Provide training and education to staff and board members to assure long-term success that the District will operate fiscally responsible.
 - c. Develop a corrective action plan to bring the District USFR compliant.
 - d. Build and maintain a general budget cash reserve of between 5% and 10% of District's annual GBL by including a budget reserve amount during the annual budget expenditure plan. The Budget reserves are so that the district has budget capacity should the District have an unanticipated necessary expenditure in a given fiscal year.
 - e. Eliminate the District's negative cash balance over a three-to-five-year period by limiting annual expenditures (during budget planning) to a total amount less than anticipated revenues.
2. Educate the District of the importance of building a cash reserve once negative cash balances are eliminated to reduce the need for registered warrants due to timing differences related to District's annual revenues received and when expenditures are incurred. This is accomplished by continuing to limit annual expenditures (during budget planning) to a total amount less than anticipated revenues.

Estimated financial impact of planned mitigating actions:

1. FY 2024:

- a. Paid back prior year operating fund overspent budget limit of \$38,585.
- b. FY 2024 ended with a small operating budget reserve of \$13,647.
- c. Reduced negative cash balance by over \$150,000 (Revenues exceeded expenditures).
- d. Brought District out of USFR non-compliance.

2. FY 2025:

- a. FY 2025 ended with operating budget reserve of \$216,343 or 8.1% of operating budget limit.
- b. District's general fund revenues exceeded expenditures by approximately \$316,000.
- c. District incurred short-term setback in the Receiver's plan to eliminate District's negative cash balances as a result of the County treasurer withholding over \$1.2 million of the District's FY 2025 revenues to repay Aqua Caliente for over taxation during tax years 2016 through 2024. This resulted in an increase in District's general fund negative cash balance in the amount of \$772,236.

3. FY 2026:

- a. Recovery of District's FY 2025 revenues withheld by the Treasurer:
 - i. Approximately \$768,000 from State aid based on revised FY 2016 through FY 2025 Budget 55 reports to account for reduced assessed values related to Aqua Caliente judgement.
 - ii. Approximately \$565,000 from special tax levy to recover balance of District's FY 2025 revenues withheld by the Treasurer.
 - iii. In total the recovery of the FY 2025 revenues will reduce District's outstanding registered warrants as of June 30, 2025 of \$1,696,983 by approximately \$1,200,000.
- b. Additional reduction in District's negative cash balance by approximately \$200,000 (FY 2026 Revenues exceeding expenditures).
- c. Operating budget reserve of between \$139,143 and \$278,287 or 5% to 10% of GBL.
- d. FY 2026 short-term setback in the Receiver's plan to eliminate District's negative cash balances as a result of the County treasurer withholding over \$92,000 of the District's FY 2026 revenues to repay for San Diego Gas and Electric for over taxation during tax years 2010 through 2024.
 - i. Recovery of an undetermined amount at this time of the over \$92,000 from State Aid based on revised Budget 55 reports for FYs 2021 through 2025 to account for reduced assessed values of San Diego Gas and Electric.

4. FY 2027:

- a. Recovery of balance of FY 2026 revenues withheld by the Treasurer and not recovered through State Aid, to repay San Diego Gas and Electric for over taxation through a special tax levy. Amount to be determined.
- b. General Fund Budget cash reserve of between 5% to 10% of GBL.
- c. Estimated to eliminate balance of any remaining negative cash balances (estimated to be less than \$300,000).
- d. Begin process of removing District from Receivership.

Implementation timeline

School district name: Antelope Union High School District

Date: 12/12/2025

Immediate actions

1. Work with Yuma county accessor's office to provide revised assessed values for tax years 2020 through 2024 to ADE resulting from revised assessed values of San Diego Gas and Electric (January 2026).
2. Work with ADE to recalculate District's Budget 55 reports for FYs 2021 through 2025 based on revised assessed values (completed between February and March 2026).
3. Obtain from ADE addition State Aid Revenues for FYs 2021 through 2025 based on revised assessed values (Recovery between March and June 2026).
4. Monitor budget capacity and expenditures and encumbered funds to assure District stays under budget.

Actual financial impact of implemented immediate actions

Recovery of District's FY 2026 revenues withheld by Yuma County Treasurer from ADE for FYs 2021 through 2025 additional state aid (estimated between \$50,000 and \$60,000)

Short-term actions

1. Work with Yuma county superintendent for FY 2027 tax levy to include special assessment to recover balance of FY 2026 revenues withheld by Yuma county treasurer (July and August 2026).
2. Plan and prepare budget including general fund budget reserve and budgeted expenditures to be less than anticipated revenues (May 2026– June 2026).
3. Continue to Monitor Budgets and expenditures and encumbered funds to assure District stays under budget.

Actual financial impact of implemented short-term actions

1. FY 2027 special assessment to recover FY 2026 revenues estimated between \$30,000 and \$40,000.
2. FY 2027 Planned general fund budget reserve between 5% and 10% of GBL.

3. FY 2027 Budgeted expenditures to be approximately \$200,000 less than anticipated revenues.
-

Long-term actions

1. Begin steps to remove District from Receivership (January 2027 – June 2027).

Actual financial impact of implemented long-term actions

1. District expected to be solvent, Operating within its budgets and building positive cash flows.
2. Once removed from Receivership, District expected to be no longer a high-risk District.

Attachment E

Financial Risk Action Plan

**Hayden-Winkelman
Unified School District**

Financial risk action plan

For more information about this template or the Arizona Auditor General's financial risk analysis, download our financial risk action plan [guidance PDF](#).

School district name: Hayden-Winkelman Unified School District #41

Date: December 11, 2025

Risk area 1

Risk area(s):

Financial position -General Fund change in fund balance, Financial position-General Fund operating margin ratio, Budget limit reserve -Operating Budget, Budget limit reserve-Capital budget, Capital monies redirected to operations

Identified causes:

- *The District's use of school resources for non-essential functions which have been allowed through lack of oversight.
- *The District has been overspending through inefficient time management which results in overtime.
- * The district is staffed at levels which are higher than most small schools due to providing the resources required to meet the significant increase in special education identified students.
- * The District has utilized its facilities outside of the instructional calendar which results in staffing part-time staff during the summer months.
- *The District uses part-time instructional aides for the summer school program rather than only using the grant funded teaching staff for the minimal number of students attending.
- *The District has not adopted a policy or procedure to establish a targeted fund balance reserve.

Planned mitigating actions:

- *Management will be working with the maintenance and transportation department to schedule bus routes, trips for games and projects to reduce the overtime.
- *The District intends to reduce staffing costs through the elimination of the use of substitute instructional aides (3), vacancy savings from a teacher retiring in December and filling a full-time vacancy of a mechanic with a part-time mechanic
- *The District will reduce the number of hours the gym will be available to students during the summer months to save on utility and staffing costs.
- *Review least restricted environment placement of all identified special education students in the district.
- * The District will set a firm budget on expenditures which have not yet been incurred or encumbered such as athletic equipment and supplies.
- *The District will reduce the utilization of facilities during the summer months which will save on the salary costs of part-time custodial staff.
- *The District will continue its efforts to apply for new federal, state, and local grants which may be available.
- *The District will be adopting a policy or procedure to establish a targeted fund balance reserve.
- *Provide Board members and Administration with training sessions, including School Budgets and Operations, Board Protocol, Policies, and responsibilities.

Estimated financial impact of planned mitigating actions:

\$100,000 - \$110,000

Risk area 2

Risk area(s):

Frozen tax rate, Small school budget limit adjustment

Identified causes:

*The District raised their tax rate several years ago due to the steep decline in the assessed values which are primarily derived from the local copper mine. The values have since fluctuated at rates which prevented us from reducing the rate.

*The District has relied on the small school adjustment to meet budgetary needs when the values declined, without making adjustments to reduce operating costs. The small school adjustment has historically been increased or decreased with effectually keeping the rate at the same frozen level.

Planned mitigating actions:

*The District will prepare all future budgets with the intent of minimizing expenditures and working to maintain levels of operating expenditures which could allow for a reduction in tax rate if combined with the establishment of the targeted reserve balance.

Estimated financial impact of planned mitigating actions:

\$100,000 to \$150,000

Implementation timeline

School district name: Hayden-Winkelman Unified School District #41

Date: December 11, 2025

Immediate actions

Populate the field below with planned actions described above that will be taken **within the next 3 months** as well as the **target completion date**. You may include first steps for short- or long-term actions.

- *Continue to monitor the District's budget, cash, and expenditures to ensure the District underspends its budget and eliminate the need to transfer from the UCO fund this fiscal year with a goal to reduce projected expenses.
- * The full-time mechanic position was filled in in December 2025 with a part-time mechanic
- * Discontinue the use of Substitute Instructional Aides.
- *Provide Board members and Administration with training sessions, including School Budgets and Operations, Board Protocol, Policies, and responsibilities.
- *Review the FY2027 staffing positions and pay prior to issuing contracts. Evaluating work agreements and staffing needs with the goal of reducing costs further.

Actual financial impact of implemented immediate actions

\$100,000 - \$110,000

Short-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- *Prepare FY2027 Budget with projected expenditures under the projected budget limits to allow for a cash reserve moving forward.
- *The Board will adopt a policy or procedure to establish a fund balance reserve by June 2026.
- *The District will complete plans to reduce utilities costs through the reduction in facilities usage such as limiting summer school to two weeks and reducing the number of hours the gym will be

available for students. They will also move to a more efficient utilization of our recently installed climate control system.

* The District will limit the staffing for our summer school program to only those funded through existing grant funding.

Actual financial impact of implemented short-term actions

\$15,000 - \$25,000

Long-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

*Prepare the annual budget with actual expenditures falling below the budgetary amount to allow for the building of the cash reserve and not relying on the small school adjustment.

*Analyze our operating needs to find ways to possibly lower our tax rate.

*The Board will adopt a policy or procedure to establish a fund balance reserve by June 2026 with the ultimate goal being to move towards the GFOA's recommendation of having the level be at least two months of operating revenues and expenditure.

Actual financial impact of implemented long-term actions

Click or tap here to enter text.

Attachment F

Financial Risk Action Plan Isaac Elementary School District

Financial risk action plan

For more information about this template or the Arizona Auditor General's financial risk analysis, download our financial risk action plan [guidance PDF](#).

School district name: Isaac Elementary School District No. 5

Date: 01/08/2026

Risk area 1

Risk area(s):

Change in weighted student count

Identified causes:

1. Federal immigration enforcement continues to have a significant adverse effect on our student weighted counts.
2. Loss of 21st Century (Title IV – Part B) afterschool funding for the 2026 school year.
3. Lack of affordable housing for young families.
4. Loss of students to Charter Schools

Planned mitigating actions:

1. The District sold a former school site to the Industrial Development Authority of the City of Phoenix that will build affordable housing on the site.
2. The District plans on reapplying for 21st Century funding for the 2027 school year.
3. Increase afterschool enrichment programs for District students using donations, Extra Curricular Tax Credits, and Title IV funding.

Estimated financial impact of planned mitigating actions:

1. Affordable housing construction will take several years to reach maximum effect. A recently completed housing project in the District is expected to generate approximately 50-60 students when fully occupied. \$296,000 - \$355,000
2. Afterschool enrichment programs, including 21st Century funding should attract 20 to 40 new or former students. \$100,000 - \$300,000.

Risk area 2

Risk area(s):

Financial position – General Fund operating reserve ratio
General Fund operating margin ratio
General Fund change in fund balance

Identified causes:

The District overspent its Maintenance & Operating Budget in 2024 and 2025 (as adjusted) due to:

1. Failure to follow USFR accounting procedures regarding accounting records, cash, and expenditures created gaps in awareness of deteriorating financial conditions.
2. Failure to react to declining enrollment, leading to overstaffing; excess building capacity; and operational inefficiencies.
3. Excessive expenditures on management consultants.
4. Mismanaged federal and state grants that resulted in disallowed reimbursement requests and grant awards not fully utilized resulting in lost grant capacity for that year.
5. Poorly operated in-house online education program.
6. Costly pre-school program that lacked adequate revenue sources.
7. Unsupported increases in the District's white fleet vehicles.

Planned mitigating actions:

1. Activate budget controls in accounting software, require timely recording of vendor invoices, strengthen purchasing controls, simplify Chart-of-accounts to comply with USFR. During 2026 and 2027, create Standard Operating Procedures for all operational departments.
2. Reduce administrative and support staff to remain in-line with student counts and revenues. Outsource food service, custodial, and groundskeeping services.
3. Reduce reliance on management consultants.
4. Grant oversight now assigned to Business Services. Frequent monitoring of grant applications, grant budgets, grant expenditures, reimbursement requests, and completion reports will be performed.
5. The District will discontinue operating an in-house on-line program using District employees.
6. Reorganize preschool program to reduce costs and increase revenues.

7. Review employee benefit programs for 2027 and adjust employee medical plans & co-pays.
8. Sale of excess vehicle inventory.
9. Utilize the School Facilities Division (SFD) to obtain BRG grant funding for repairs & replacement of equipment and building components.

Estimated financial impact of planned mitigating actions:

1. Accounting & purchasing controls. Savings from reduction of warrant expense and improved purchasing practices to lower costs. \$ 100,000
2. Reduce administrative and support costs through school closures and reduction in staffing district wide to match student counts in the classrooms and necessary support staff. \$8,000,000.
3. Reduction of reliance on management consultants. \$75,000
4. Grant oversight will increase use of grant awards. \$ 500,000
5. Discontinue District operated on-line school. \$700,000
6. Reorganize preschool. \$150,000
7. Adjust employee medical insurance and co-pays. \$120,000
8. Sale of excess vehicle inventory. \$125,000
9. Utilize school facilities BRG program for repairs of facilities. \$200,000

Risk area 3

Risk area(s):

Budget limit reserve – Maintenance & Operations operating budget

Budget limit reserve – Capital budget

Capital monies redirected to operations

Identified causes:

1. The District overspent its Maintenance & Operating Budget in 2024 and 2025 (as adjusted) as previously reported in Risk area 2. Thereby eliminating the ability to meet a Budget limit reserve.
2. The District overspent its Unrestricted Capital Budget in 2023, 2024, and 2025 (as adjusted) due to the lack of budget and fiscal controls over Grants and Capital Expenditures. Many of the Capital Expenditures did not qualify for ESSER reimbursements and had to be absorbed by the Unrestricted Capital account that lacked budget capacity for the expenses.
3. Capital monies were redirected to operations to cover overspending in M&O in prior years.

Planned mitigating actions:

1. Beginning in 2026, the district will establish and maintain an achievable Operating Budget Reserve.
2. District will activate budget controls in its accounting software, require timely recording of vendor invoices, and Business Services will monitor grant budgets and expenditures for compliance.
3. The District entered into a \$25,000,000 sale-leaseback arrangement with Tolleson Union High School District in January 2025 to provide cash to cover warrants issued by the Maricopa County Treasurer's office resulting from excess Maintenance & Operation and Capital Expenditures.
4. District voters approved a \$10,000,000 bond in November 2025 that will be used to partially reimburse Tolleson Union for a portion of the sale-leaseback transaction in 2026.
5. Sales of excess properties and land will be used to reduce the Capital Fund deficit and/or repay Tolleson Union.
6. The District has no plans to redirect allowable capital budget to Maintenance & Operations budget.

Estimated financial impact of planned mitigating actions:

1. For Maintenance & Operations the goal would be to reach a budget limit reserve of 2% of the annual budget within 3 years.
2. Due to the significant deficit in the Capital Budget, the goal is to eliminate the deficit during the next 3 to 6 years through limited capital spending, sale of excess properties and land, and the sale of excess fixed assets such as vehicles and equipment. Once the deficit is eliminated, the District can proceed to build up a capital reserve.
3. The District currently has no outstanding warrants with the County Treasurer as a result of the \$25,000,000 sale-lease back transaction with Tolleson Union.
4. Sale of excess land, facilities & equipment. \$8,000,000 - \$12,000,000.
5. Capital Bond sales. \$10,000,000.

Risk area 4

Risk area(s):

Receivership

Identified causes:

1. Arizona State Board of Education placed the District into Receivership in January 2025. (ARS §15-103(A) due to:
 - Expenditures in the General Fund and Capital Fund exceeded allowable budget capacity greater than 5%. (ARS §15-103(B)(6)
 - The District was insolvent pursuant to ARS §15-103(B)(1).

Planned mitigating actions:

1. Eliminate District overspending the General Budget Limit in Maintenance & Operations by June 2026, through budgetary and expenditure controls.
2. Eliminate the Capital Fund deficit by 2032 or earlier by sales of capital assets and application of annual DAA budget capacity towards the deficit.

Estimated financial impact of planned mitigating actions:

See risk areas 2 and 3 above

Implementation timeline

School district name: Isaac School District No. 5

Date: 01/08/2026

Immediate actions

Populate the field below with planned actions described above that will be taken **within the next 3 months** as well as the **target completion date**. You may include first steps for short- or long-term actions.

- Apply for 2027 21st Century funding at 4 schools. February 15th completion.
- Business Services oversight of Grant applications, completion reports, reimbursement draws, and amendments. Ongoing effort.
- Create Fiscal year 2027 budget and school staffing needs projections based upon January 2026 student counts. March 1, 2026 completion.
- Private placement sale of \$10 million in Bonds approved by the voters in November 2025.
- Reduction of excess vehicle inventory. April 2026.
- Apply for SFD funding for qualifying BRG repairs & replacement of equipment & building components. Ongoing effort.
- Promote Extra Curriculum Tax Credit programs and ways to promote donations.
- Reduce reliance on outside consultants.

Actual financial impact of implemented immediate actions

Click or tap here to enter text.

Short-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- Reduction of administrative and support staff needs based upon projected 2027 student counts and employee workloads. April 2026 completion.
- Ballot measure to sell excess school properties in November 2026.
- Reorganize preschool operations. August 2026 completion.
- Create Governing Board M&O and Capital budget limit reserves policy. June 2026.
- Increase employee share of medical insurance and co-pays. July 2026.

Actual financial impact of implemented short-term actions

Click or tap here to enter text.

Long-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- Creation of Business Services, Technology, and Human Resources Standard Operating Procedures. December 2027 completion.
- Reevaluate & market facility rental agreements to outside organizations. Ongoing effort.
- Sale of excess property, land, and equipment.

Actual financial impact of implemented long-term actions

Click or tap here to enter text.

Attachment G

Financial Risk Action Plan

Joseph City Unified School District

Financial risk action plan

For more information about this template or the Arizona Auditor General's financial risk analysis, download our financial risk action plan [guidance PDF](#).

School district name: Joseph City Unified School District No. 2

Date: January 13, 2026

Risk area 1

Risk area(s):

Change in weighted student count

Identified causes:

1. APS Cholla Power Plant closure:

The Cholla Power Plant and related infrastructure are located within the boundaries of the Joseph City Unified School District. Historically, the Cholla generating facility accounted for approximately 85–90 percent of the district's assessed valuation and served as the predominant employer in the area.

In 2015, Arizona Public Service (APS) announced a phased closure of its multiple power generation units over a ten-year period, with the final unit closing on December 31, 2024. While the electrical switching facility remains operational and continues to route power from generating sources across the Southwest to the Phoenix metropolitan area, the generating plant closure resulted in significant job losses within the community.

As a result of these job losses, families relocated out of the community and district average daily membership (ADM) declined 11% from FY 2022 through January 2026. However, Weighted Group B Add On ADM increased by 51% over the same period. The function of the Group B Add On is to provide additional funding for various groups of students that cost more to educate such as, special needs students, high school students, etc. The net decrease in Total Weighted ADM, including Weighted Group B Add On ADM, is 6% from FY2022 through January 2026.

Although several wind and solar energy projects are currently under construction within district boundaries and are expected to partially offset lost employment, the full fiscal impact of the power plant closure has required careful long-term planning by the district.

Planned mitigating actions:

Stabilize enrollment

With the Cholla power generation plant having been closed for a year now, enrollment trends are stabilizing. The decline in Total Weighted ADM from FY 2025 to January 2026 is 1%. Tuition-based preschool enrollment increased in FY 2026. Pre-school enrollment has historically been a reliable predictor of future first-grade enrollment. Open enrollment students from outside district boundaries currently comprise approximately 28% of total enrollment. The district is experiencing increased inquiry from out-of-district families and anticipates this to be an area of future enrollment growth. Renewable energy projects being constructed in the district are expected to bring in new employees and families.

Estimated financial impact of planned mitigating actions:

See Risk area 2

Risk area 2

Risk area(s):

Operating budget limit reserve and capital budget limit reserve

Identified causes:

The dramatic decline in the budget limit reserve balance from \$886,728 in FY 2022 to \$20,798 in FY 2025 requires additional context.

First, this peak was temporary and atypical due to one-time COVID-related funding received by all school districts. Prior to the pandemic, the district's M&O reserve balance was significantly lower, generally below the FY 2022 level. The downward trend is exaggerated by this one-time funding peak.

Second, the budget limit reserve balance does not reflect the district's broader cash position, including significant reserves intentionally accumulated in non-M&O and non-capital funds as part of its long-range financial strategy.

Planned mitigating actions:

Reduce expenditures

The district has implemented a plan to reduce expenditures with the goal of increasing operating and capital budget limit reserves to at least \$150,000 for FY 2026 and \$200,000 by FY 2027.

- Absorb expenditures in other funds outside of Maintenance & Operations and Capital where the district has built up surplus budget capacity, in accordance with the district's long-standing plan to adapt to the power plant closure.
- Reduce staffing costs through a combination of eliminating or reducing positions, where possible, limiting cost of living increases and health insurance benefits.
- Review operations and capital budgets line-by-line eliminating or postponing costs where possible.

The district accumulated the following cash reserves with the express intent to begin using them in FY 2025 to support a gradual and controlled reduction in expenditures. These reserves were specifically designated to temporarily absorb costs that would otherwise be borne by the M&O and Capital funds, allowing the district to reduce staffing and programs over multiple years rather than through abrupt reductions.

\$500,000 Gifts and donations (to be used for expenditures that would otherwise come from M&O and Capital funds)

\$914,000 Classroom Site Fund (used to fund teacher positions to keep class sizes smaller to allow for more gradual staff reductions)

\$145,000 Indirect Costs (used to transfer costs from M&O to allow for more gradual budget reductions)

\$179,000 Career and Technical Education (the cost of CTE related expenditures that are currently paid from M&O were transferred here allowing more time to scale down programs)

\$141,000 Instructional Improvement (the cost of additional staff was transferred here allowing time to scale down educational programs)

\$134,000 Medicaid Reimbursement (the cost of certain student support staff was transferred here from M&O allowing time to scale down programs)

\$2,013,000 TOTAL

Estimated financial impact of planned mitigating actions:

\$150,000 - \$180,000 per year

The district began utilizing this reserve in FY2025.

Risk area 3

Risk area(s):

Financial position general fund operating margin

Identified causes:

As explained in Risk area 2, the district has accumulated reserves in other funds with the intention of tapping those funds once General fund reserves have been exhausted to support a gradual and controlled reduction in expenditures.

Planned mitigating actions:

- Continue to utilize available capacity in other funds.
- Reduce expenditures over the next two years at a rate that aligns with General fund budget capacity and reductions in other non-M&O and non-Capital funds as those reserves are depleted.
- See additional details in Risk areas 1 and 2.

Estimated financial impact of planned mitigating actions:

Decrease expenditures in excess of revenues in M&O and Capital funds over the next two to three years. See Risk area 2.

Risk area 4

Risk area(s):

Financial position general fund change in fund balance

Identified causes:

Arizona Public Service (APS) pays the majority of the district's property tax levy. However, APS customarily delays payment of the first half of its annual taxes until November, with the second half paid the following May. As a result, the district must operate for extended periods with minimal incoming revenue while continuing to meet payroll and operational obligations.

To address this timing issue, the Navajo County Treasurer established a \$1.3 million line of credit several decades ago to provide short-term cash flow support while awaiting tax revenues. In April 2025, this line of credit was reduced to \$1.0 million with no prior notice. Since that time, the County Treasurer has declined to utilize any of the credit line for district operations during these timing gaps.

The district has identified a cumulative shortfall in FY 2024 and FY 2025 M&O and Capital tax levies collected by Navajo County compared to assessed taxes. This has contributed \$227,299 to the shortfall in the district's cash position.

Planned mitigating actions:

- The district has already taken action to address this shortfall. Specifically, the district submitted A.R.S. §15-915 requests to correct transportation data for FY 2023, FY 2024 and FY 2025. These were approved and resulted in a state equalization adjustment payment of \$500,885 in December 2025. The district is expecting another payment of \$224,287 in January 2026 for a total of \$725,172.
- The district will continue to work with the county to resolve this issue and restore access to appropriate short-term financing.
- The district intends to pursue state equalization advances to help mitigate future cash flow timing gaps.
- The district intends to pursue measures with the county to reduce the gap between tax assessments and collections in future years.

Estimated financial impact of planned mitigating actions:

\$725,172 one-time equalization adjustment

\$1,000,000 restoration of short-term credit line to cover cash flow timing differences

\$50,000 - \$100,000 per year if able to reduce the amount of uncollected taxes

Possible state equalization advances

Implementation timeline

School district name: Joseph City Unified School District No. 2

Date: January 13, 2026

Immediate actions

Populate the field below with planned actions described above that will be taken within the next 3 months as well as the target completion date. You may include first steps for short- or long-term actions.

- Continue to monitor the district's budget and follow up on opportunities to reduce expenditures and improve its cash position to ensure the district continues to spend within its budget limits.
- Continue to utilize cash reserves accumulated in other funds outside of the General fund.
- Utilize the \$732,405 equalization adjustment to help fund cash flow timing differences.
- Work with the County Treasurer's office to restore the district's line of credit.
- Continue to work with the Governing Board with budget adjustments and future budget planning.

Actual financial impact of implemented immediate actions

- \$732,405 additional cash reserve
 - See Risk area 1
-

Short-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- Prepare FY 2027 budget with expenditures that will allow the district to increase its cash carryover in Operating and Capital funds by \$150,000 - \$200,000.
- Work with the county to ensure the district's tax levy will be sufficient to fund budget limits.
- Continue to monitor and utilize cash reserves that have been accumulated in other funds outside of Operating and Capital funds.
- Apply for state equalization advances.

Actual financial impact of implemented short-term actions

See details above.

Long-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- Continue executing the district's ongoing plan to utilize the cash reserves it has accumulated in other funds over the past ten years.
- Continue to monitor expenditures and in Maintenance & Operations and Capital funds to ensure appropriate cash carryover amounts.
- Continue to monitor enrollment and adjust expenditures accordingly.
- Continue to utilize lines of credit and state equalization advances to cover cash flow timing differences.

Actual financial impact of implemented long-term actions

See details above.

Attachment H

Financial Risk Action Plan

Palominas Elementary School District

Financial risk action plan

For more information about this template or the Arizona Auditor General's financial risk analysis, download our financial risk action plan [guidance PDF](#).

School district name: Palominas Elementary School District 49

Date: December 10, 2025

Risk area 1

Risk area(s):

- Change in weighted student count.

Identified causes:

- Decline in school-age population in the area.
- Limited employment opportunities in the rural region.
- Countywide decline in birth rates.
- Increased enrollment in ESAs, charter schools, and homeschooling alternatives.

Planned mitigating actions:

- **Increase Enrollment:** Host enrollment fairs and expand transportation options to attract new students.
- **Enhance Marketing:** Promote the District's B-rating, highlight our open enrollment opportunities, and showcase our partnership with the Boys & Girls Clubs. Work with Achievement Essentials Consulting on marketing and streamlining operations. Survey unenrolled families to determine reasons for not attending schools. Survey surrounding districts to boost open enrollment. Conduct Governing Board Townhalls to gather input.
- **Boost Parent Engagement:** Conduct parent surveys, host family nights, and organize enrollment fairs.

- **Expand Social Media Presence:** Assign dedicated staff to manage each site's social media, using platforms to highlight events and programs.

Estimated financial impact of planned mitigating actions:

- **Enrollment Growth:** Attracting 150 new students could generate additional M&O funding(See Risk Area 4).
- **Marketing Campaigns:** Estimated cost of \$5,000 to \$10,000.
- **Parent Engagement & Social Media:** Minimal to no additional cost.

Risk area 2

Risk area(s):

- Budget limit reserve—Operating budget.

Need help? Expand this section to view a list of possible risk areas.

Identified causes:

- **Declining Enrollment:** The District maintains two K–8 schools with fluctuating class sizes, leading to inefficient resource allocation and overstaffing. This has been temporarily offset by carry-forward funds.
- **Contracted ESS Services:** Recruiting specialized service providers is difficult in a rural setting, resulting in ongoing outsourcing at elevated costs not fully covered by IDEA.
- **Food Service Deficits:** The M&O fund has been subsidizing food service operations for several years.
- **Transportation Costs:** A staffing crisis in 2022–2023 led to outsourcing transportation for 2023–2024, increasing expenditures. Transportation has since returned in-house at lower cost.
- **Rising Operational Costs:** Minimum wage increases, inflation, and elevated utility, supply, insurance, and benefits costs outpace the 2% state budget increase, further straining the M&O and Capital budgets.

Planned mitigating actions:

- **Staff Reductions:** Implement reductions in force and FTE hours to lower benefit costs. Cuts include administrative, business office, food service, custodial, maintenance, clerical, instructional aide, and teaching positions. Consolidate sports and eliminate the band program.
- **Reduce Operating Costs:** Consolidate classrooms and offices to shut down unused spaces and reduce utility expenses. Implement a four-day school week and encourage community donations (e.g., copy paper drives).
- Increase utilization of district maintenance staff for repairs to reduce outsource expenditures.
- **Contract Out for Food Service:** We are contracting Food Service through Chartwells

- Seek **Grants:** Collaborate with Boys & Girls Clubs to secure funding for after-school and extracurricular programs.
- Reduce **ESS Contract Costs:** Work with contractors to lower expenses.
- Monetize **Assets:** Explore selling or leasing donated land.
- Research running an Override Election to access unspent cash reserves that cannot otherwise be used.

Estimated financial impact of planned mitigating actions:

- Staff **Reductions:** Approximately \$750,000 in savings (2025–2026)
- Operating **Cost Reductions:** Approximately \$50,000 (2025–2026)
- Food **Service Outsourcing:** Approximately \$150,000
- ESS **Cost Reductions:** Approximately \$60,000 (2025–2026)
- Asset **Monetization:** (If land sells) Approximately \$200,000
- **Override:** If passed by voters, starting in 2028 potential 5% increase to budget over 5 years

Risk area 3

Risk area(s):

- Budget limit reserve—Capital budget.

Need help? Expand this section to view a list of possible risk areas.

Identified causes:

- **Transfers to M&O:** Capital funds have been redirected to M&O to cover operational costs due to shortfalls outlined in Risk Area 2.
- **Unfunded Capital Projects:** Major infrastructure needs, such as replacing an underground fuel tank and maintaining ADEQ-regulated wells, have created expenses not covered by the School Facilities Division (SFD).

Planned mitigating actions:

- **Increase ADM & Reduce Costs:** Leverage strategies from Risk Areas 1 and 2 to reduce reliance on capital transfers.
- **Utilize Grants:** Continue applying for SFD and other relevant capital project grants.
- Increase utilization of district maintenance staff for capital projects to reduce outsource expenditures.

Estimated financial impact of planned mitigating actions:

- **Increased ADM/Cost Savings:** (See Risk Area 4)
- **Grants:** Variable, based on awards received

Risk area 4

Risk area(s):

Capital monies redirected to operations

Need help? Expand this section to view a list of possible risk areas.

Identified causes:

- **Transfers to M&O:** Capital funds have been redirected to M&O to cover operational costs due to shortfalls outlined in Risk Area 2.

Planned mitigating actions:

Increase ADM & Reduce Costs: Leverage strategies from Risk Areas 1 and 2 to reduce reliance on capital transfers.

- **Utilize Grants:** Continue applying for SFD and other relevant capital project grants.

Estimated financial impact of planned mitigating actions:

- **Increased ADM/Cost Savings:** Approximately \$765,000
- **Grants:** Variable, based on awards received

Implementation timeline

School district name: Palominas Elementary School District 49

Date: December 10, 2025

Immediate actions

Populate the field below with planned actions described above that will be taken **within the next 3 months** as well as the **target completion date**. You may include first steps for short- or long-term actions.

COMPLETED ACTIONS:

- 2024–2025 Reduction in Force: 5 teaching positions, 1 district administrator (ESSER-funded), 2 behavior support roles (ESSER-funded)
- 12/10/24: Budget overage report presented to Board, included discussion of reallocating funds and using journal entries.
- 01/03/25: Budget input surveys sent to parents and staff.
- 01/13/25: Hiring freeze for nonessential positions implemented.
- 01/14/25: Survey results shared at Board meeting.
- 01/30/25 and 02/06/25: Board held work sessions on financial risk and budget reduction options.
- 02/11/25: Board voted to retain two K–8 schools and pursue staff/program reductions and enrollment growth.
- Implement 2025–2026 RIF: 13 teachers, 1 counselor, 60 FTE custodial hours, 1 maintenance worker, 2 clerks, 1 administrator, 1 business office staff
- ADM analysis and registration monitoring for 2025–2026 staffing.
- Consolidated Palominas classrooms to reduce facility use.
- Conducted enrollment fairs and increased social media activity.
- Evaluated and implemented bus routes into neighboring districts.
- Finalize food service RFP to identify cost-saving potential. Contracted with Chartwells for Food Service operations

ONGOING ACTIONS:

- Continue ADM analysis and registration monitoring for 2026–2027 staffing.
- Conduct enrollment fairs and increase social media activity.

- Evaluate bus routes into neighboring districts.
- Explore sale of donated land.
- Finalize reconciliation of purchase orders and journal entries..

Actual financial impact of implemented immediate actions

Short-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- Continue ADM monitoring and adjust staffing accordingly.
- Investigate running an override election to access reserve funds.
- Assess need for district restructuring for 2026–2027.
- Work with Achievement Essentials Consulting on marketing and streamlining operations.

Actual financial impact of implemented short-term actions

Click or tap here to enter text.

Long-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

- Running an Override
- Land Sales

Actual financial impact of implemented long-term actions

TBD

Attachment I

Financial Risk Action Plan

Santa Cruz Elementary School District

Financial risk action plan

School district name: Santa Cruz Elementary School District #28

Date: 1/14/2026

Risk area 1

Risk area(s):

Decreased Student Counts for several years, change in weighted student count.

Identified causes:

The changes in weight student count have affected the budget over years. School choice, ESA Scholarships and Small Schools Adjustment have impacted our student count. While student enrolled has declined, resulting in reduced financial resources, the district has taken proactive steps to address these challenges.

Planned mitigating actions:

The school district has maintained strong staff and teacher retention over many years, providing stability and continuity for our students and community. While students enrolled has declined, resulting in reduced financial resources, the district has taken proactive steps to address these challenges. District is planning to continue to remain on Small Schools Adjustment status and to recruit for incoming Kindergarten students.

Estimated financial impact of planned mitigating actions:

Small Schools Adjustment funding will generate an additional \$250,000 to the school district's budget capacity and cash flow, depending on the amount of property tax collected.

Risk area 2

Risk area(s):

Operating/Capital Budget Limit, Operating Reserve Ratio, Operating Margin Ratio, Change in Fund Balance, Capital Monies Redirected to Operations, Unfunded Small School Adjustment

Identified causes:

The District's operating/capital budget limit reserves has fluctuated throughout the last few years due to decline in student enrollment, employee benefits and raising costs of daily district operations. Additionally, the former County Treasurer's embezzlement moved our cash balances into a deficit. The discrepancy between the unfunded small schools adjustment and the general fund will be evaluated periodically to make the necessary adjustment to improve budget capacity.

Planned mitigating actions:

District planning to continue to mitigate implementation of reduction within different departments. Moving forward, the district will continue to evaluate and reduce unnecessary expenditures while responsibly managing resources to ensure continued operations and long-term stability.

Employee positions funding sources have been modified based on availability of funding sources not M & O. District partnering with food service contract vendor from nearby district to reduce costs of having own food service costs. The district operates on a 4 day academic school week to reduce on utility costs. Some grade levels remain as combined classrooms as of the beginning of FY25 to reduce staffing needs. Heating/AC units have been adjusted to climate control. Bus routes have been reduced from three routes to two routes to minimize costs, as well as bus drivers and buses, going from 4 buses to 3.

Estimated financial impact of planned mitigating actions:

Evaluating the district's operating/capital budget on a continuous basis to modify expenses as needed. Financial impact TBD throughout evaluation of plan.

Risk area 3

Risk area(s):

Frozen Property Tax Rate

Identified causes:

AZ Department of Revenue placed the school district under frozen tax rate status due to Small Schools Adjustment levy. We continued with the Small Schools Adjustment through a Truth In Taxation process in FY 26, which resulted in frozen tax rate as determined by the AZ Department of Revenue.

Planned mitigating actions:

We initiated the Small School Schools Adjustment process in SY2025, resulting in enforced student enrollment decline of 125 or less students. School district will reevaluate on a yearly basis the Small Schools Adjustment levy.

Estimated financial impact of planned mitigating actions:

The evaluation of the Small School Adjustment Levy may or may not reduce yearly tax rate.

Implementation timeline

School district name: Click or tap here to enter text.

Date: Click or tap here to enter text.

Immediate actions

3 Month Actions

Employee positions funding sources have been modified based on availability of funding sources not M & O. District partnering with food service contract vendor from nearby district to reduce costs of having own food service costs. The district operates on a 4 day academic school week to reduce on utility costs. Some grade levels remain as combined classrooms as of the beginning of FY25 to reduce staffing needs. Heating/AC units have been adjusted to climate control. Bus routes have been reduced from three routes to two routes to minimize costs, as well as bus drivers and buses, going from 4 buses to 3.

Actual financial impact of implemented immediate actions

Financial Stability to sustain the fiscal year, not to exceed budget limits. Financial impact TBD throughout evaluation of plan.

Short-term actions

4-12 Months Actions

Preventive maintenance efforts will be implemented to save on the costs of major repairs to equipment, buildings and hardware. Evaluation of current staffing to ensure alignment with student needs and enrollment levels. District will work on a truancy program to increase average daily attendance.

Actual financial impact of implemented short-term actions

Financial budget slow increase to move forward to building sustainability and pulling district from high financial risk. Financial impact TBD throughout evaluation of plan.

Long-term actions

Beyond 12 months Actions

District will work on a truancy program to increase average daily attendance. School district will reevaluate on a yearly basis the Small Schools Adjustment levy.

Actual financial impact of implemented long-term actions

Financial budget slow increase to move forward to building sustainability and pulling district from high financial risk. Financial impact TBD throughout evaluation of plan.

Attachment J

Financial Risk Action Plan

Sierra Vista Unified School District

Financial risk action plan

For more information about this template or the Arizona Auditor General’s financial risk analysis, download our financial risk action plan [guidance PDF](#).

School district name: Sierra Vista Unified

Date: 12/05/25

Risk area 1

Risk area(s):

Change in weighted student count.

Identified causes:

1. Increases in homeschooling, amplified by state ESA funding.
2. Lower birth rates resulting in smaller incoming student cohorts.
3. More available schools of choice and aggressive competition for students.
4. Customer service improvements needed to strengthen retention and family confidence.

Planned mitigating actions:

1. HOMESCHOOLING INCREASE – Mitigating Actions

A. Launch a “Return to SVUSD” Outreach Campaign

- Personalized outreach to families who withdrew to homeschool.
- Offer school tours, shadow days, and re-entry support.
- Highlight improved programs, safety measures, and academic offerings.

B. Strengthen Online & Alternative Options

- Advertise Sierra Schools, and ASU Online
- Provide part-time enrollment for electives, sports, clubs, and CTE.
- Market these as “supplements” to homeschool families.

C. Improve Curriculum Transparency

- Create easy-to-understand guides on what students learn at each grade.
- Include sample assignments, reading lists, and digital tools.

Goal: Rebuild trust and make SVUSD appealing—even to families who partially homeschool.

2. DECLINING BIRTH RATES – Mitigating Actions

A. Strengthen Kindergarten & PreK Recruitment

- “Kindergarten Round-Up Blitz” January–August.
- Meet-and-greet events, early registration incentives, and school tours.
- Increase digital and on-base marketing to reach military families.

B. Expand Early Childhood Options

- Increase PreK seats through partnerships (DES, Head Start, community).
- Advertise more our fee-based PreK to attract families needing childcare.

C. Build Strong Feeder Patterns

- Engage local preschools with outreach.
- Establish relationships with childcare centers, churches, and family providers.
- Provide direct enrollment support at these locations.

D. Improve Retention at Transition Grades

- 5th-to-6th and 8th-to-9th grade transition events
- Parent nights focusing on academic pathways and extracurricular offerings
- Support Preschool to Kindergarten transition supports

Goal: Increase the number of families choosing SVUSD *before* kindergarten and keep students through graduation.

3. SCHOOLS OF CHOICE COMPETITION – Mitigating Actions

A. Market Our Signature Programs

- Promote STEAM, Sierra Schools, robotics, CTE pathways, arts, and athletics.
- Create short videos and testimonials from parents and students.
- Use targeted ads focused on Fort Huachuca and new residents.

B. Strengthen Open Enrollment Processes

- Simplify and speed up the online open enrollment application.
- Standardize customer service expectations across school offices.
- Guarantee 48-hour response to enrollment inquiries.

C. Improve School Climate & Community Engagement

- Continue PBIS implementation and showcase positive outcomes.
- Hold family events to build school pride.
- Increase visibility of principals in the community.

D. Directly Address “Why Families Leave”

- Conduct exit surveys for withdrawing students.
- Implement a 72-hour “save attempt” call by a school leader.
- Track themes districtwide and address root causes quickly.

Goal: Position SVUSD as the *first-choice district* by emphasizing strengths and minimizing friction points

4. CUSTOMER SERVICE IMPROVEMENT – Mitigating Actions

A. Districtwide Customer Service Standards

- Implement a “SVUSD Service Promise” (clear, simple, 5–7 commitments).
- Include greeting expectations, phone/email response times, and problem-resolution steps.

B. Front Office & Leadership Training

- Provide customer service and de-escalation training to all office staff.
- Create a Front Office Excellence Playbook.
- Ensure consistent communication templates for positive parent engagement.

C. Improve Enrollment Experience

- Centralize support for enrollment questions.
- Create “New Family Welcome Kits” and school welcome scripts.
- Ensure every school office assigns a dedicated enrollment greeter.

D. Increase Transparency & Responsiveness

- Publish FAQ sheets for discipline, safety, academics, and transportation.
- Implement a customer feedback tool with guaranteed follow-up.
- Improve school websites and ensure timely updates.

Goal: Make every parent interaction feel welcoming, competent, and responsive—reducing the appeal of other options.

Estimated financial impact of planned mitigating actions:

1. HOMESCHOOLING MITIGATION

Main actions:

- Return-to-SVUSD outreach
- Hybrid/part-time options
- Homeschool partnership program
- Curriculum transparency

Estimated Student Recapture: 1–2% of homeschoolers which equals:

- 20–40 students per year
- \$160,000 – \$320,000 / year in revenue impact

Cost Considerations

- Mostly staff time
- Minimal marketing/printing (<\$10,000)
- No major operational cost increases due to existing capacity

Net Financial Impact: +\$150,000 to +\$300,000 annually

2. MITIGATION FOR LOWER BIRTH RATES

Main actions:

- Early childhood expansion
- Kinder Round-Up Blitz
- PreK partnerships
- Transition events

Estimated Student Gain: 5–10% more of the existing cohort, which equals:

- 15–30 new kindergarteners annually
- \$120,000 – \$240,000 / year in new revenue

Expanding fee-based PreK can also generate direct revenue:

- \$75,000 – \$150,000 net annually (depending on size)

Net Financial Impact: +\$200,000 to +\$400,000 annually

3. COMPETITION FROM SCHOOLS OF CHOICE

Estimated Student Retention/Gain

Improved customer experience and marketing:

- 30–60 students per year
- \$240,000 – \$480,000 annually

Increase in open enrollment inquiries converting to enrollment:

- 10–20 additional students
- \$80,000 – \$160,000 annually

Net Financial Impact: +\$300,000 to +\$500,000 annually

4. CUSTOMER SERVICE IMPROVEMENT

Main actions:

- Districtwide customer service standards
- Training for all front offices
- Improved enrollment experience
- Stronger communication transparency

Estimated Student Retention: 20–40 students per year

- \$160,000 – \$320,000 annually

This area also overlaps with school-choice mitigation — but this estimate reflects customer service impact alone.

Cost Considerations

- Training, signage, materials, marketing, events. (<\$15,000)
- No major recurring costs

Net Financial Impact: Please refer to the financial impact summary sheet at the bottom of this document.

Risk area 2

Risk area(s):

Operating budget reserve limit, General Fund operating margin ratio, General Fund change in fund balance

Identified causes:

1. Multi-Year Decline in Weighted Student Count (WSC) Reducing Revenue

SVUSD's WSC has decreased over several years due to lower birth rates, increased homeschooling, charter/magnet options, and families choosing alternative schooling paths. Since Arizona funding formulas are directly tied to WSC, this decline significantly reduced SVUSD's M&O and UCO budget capacity. This results in significant revenue loss without an equivalent reduction in expenditures at the same pace.

2. Spending Patterns and Rising Fixed Operational Costs Outpacing Revenue

In recent years, the district's M&O spending was not adjusted in response to decreases in student population and funding. Inconsistent purchasing practices, site-level spending without strong guardrails, rising overtime, and unmonitored discretionary expenditures have contributed to higher-than-budgeted spending. Further, inconsistent monitoring of unreconciled expenditures, encumbrances, and ongoing

costs contributed. SVUSD's ongoing expenditures (staffing, mandated salary step increases, employee benefits, utilities, transportation, property/liability insurance, special education costs, substitutes, etc.) are outpacing the district's recurring revenue streams. Without corresponding expenditure reductions, these increases consume a larger share of the limited operating budget and creates a structural deficit that directly reduces the M&O reserves and General Fund balance each year.

3. Structural Costs Not Adjusted Quickly Enough for Enrollment Declines

As enrollment decreased, the district maintained staffing levels, facilities, and operational structures designed for a higher student count. This misalignment between actual enrollment and historical staffing/facility patterns has contributed to having to utilize reserves.

4. Carrying Forward Programs, Positions, or Contracts Not Supported by Current Revenue

Over time, the district has maintained positions, stipends, contracts, or supplemental programs that no longer align with current enrollment or revenue. Without intentional reduction, phasing out, or restructuring, these ongoing costs drain the General Fund and accelerate fund balance decline.

Planned mitigating actions:

1. Multi-Year Decline in Weighted Student Count (WSC) – Mitigating Actions:

- Implement targeted enrollment recovery strategies, including improved customer service systems, boundary adjustments, and expanded marketing/outreach to retain current families and re-engage students who have left the district as described in Risk Area 1.
- Right-size 4–10 positions districtwide.
 - Implement classroom, SPED, and support staffing formulas that match actual student counts.
 - Review all vacancies and freeze or repurpose positions that are not mission-critical.
 - Reduce site-level M&O budgets to align directly to current WSC.
- Close one elementary school and realign district utilization.
 - Reduce administrative, utilities, maintenance, food service, and transportation overhead.
 - Minimize under-enrollment inefficiencies by consolidating campuses.

2. Spending Patterns Not Aligned With Budget Limits – Mitigating Actions:

- Strengthen monthly budget monitoring, requiring Cabinet-level reviews of M&O and UCO budget limit status, encumbrances, and year-to-date spending to ensure expenditures remain within legal limits.
- Implement immediate expenditure controls, such as restricting non-essential purchases and requiring pre-approval for spending above set thresholds.
- Implement a non-essential spending freeze (travel, conferences, supplies, overtime).
- Consolidate common purchases to eliminate duplications and secure better pricing.
- Increase Business Office oversight and monthly financial monitoring.
 - Provide monthly General Fund reports to Cabinet and principals.
 - Enforce consistent P-Card expectations, guidelines, and spending guardrails.

3. Structural Costs Not Adjusted for Enrollment Declines – Mitigating Actions:

- Consolidate facilities and streamline operations, including the planned closure of one elementary school and future reuse or sale/lease of district properties to reduce overhead.
- Rebalance staffing through attrition and realignment, ensuring staffing levels reflect current enrollment, class size targets, and updated program needs.
- Conduct a districtwide program and position audit.
- Identify programs, stipends, and positions no longer aligned to enrollment or priorities.
- Sunset, restructure, or shift unsustainable costs into alternative funding sources (Title I/II/IV, IDEA, grants, leases).
- Reduce or renegotiate contracted services.
- Review all current vendor agreements for cost-effectiveness.
- Reduce scope, end low-impact contracts, or convert to in-house services where more cost-efficient.

4. Carrying Forward Programs, Positions, or Contracts Not Supported by Current Revenue – Mitigating Actions:

- The District will conduct an annual review of all programs, positions, stipends, and contractual services to ensure alignment with current enrollment levels, available revenue, and statutory requirements. Programs or positions identified as no longer supported by ongoing revenue will be evaluated for reduction, restructuring, or elimination.
- The District will implement enrollment-based staffing and budget allocation models to ensure personnel and program costs adjust proportionately with changes in student enrollment and revenue. Staffing levels will be reviewed annually during the budget development process.
- The District will review all existing contracts and stipends to assess necessity, cost-effectiveness, and funding sustainability. Contracts and supplemental payments not aligned with current operational needs or recurring funding sources will be renegotiated, reduced, or discontinued as appropriate.
- The District will enhance budget governance by requiring administrative review of ongoing expenditures to ensure they are supported by recurring revenue. The District will utilize multi-year financial forecasting to identify and address structural imbalances and to prevent future unsupported carryforward costs.

Estimated financial impact of planned mitigating actions:

1. Mitigating WSC Decline

Enrollment Recovery & Customer Service Improvements: estimated financial impacts described in risk area 1 above.

Enrollment-Aligned Staffing and Site Budget Adjustments: \$500,000–\$750,000 in savings annually

2. Improved Alignment of Spending With Budget Limits

Strengthened Monthly Budget Monitoring and Controls: \$100,000–\$200,000 annually
Reduction in overspending due to better encumbrance management, tighter purchasing, and prevention of unbudgeted expenditures.

Restrictions on Non-Essential Spending: \$250,000–\$500,000 annually
Typical savings from freezing discretionary M&O spending, travel, non-critical contracts, and supply purchases.

3. Structural Costs Not Adjusted to Enrollment

School Consolidation (Closing One Elementary School NEXT school year): \$300,000 annually
Includes savings from administration, custodial, clerical, nurse, some staff, and reduced operating costs.

District Office Property Lease/Sale & Staffing Realignment: \$350,000–\$600,000 annually
Savings from reduced overhead, plus potential lease revenue or sale proceeds to offset costs.

4. Carrying Forward Programs, Positions, or Contracts Not Supported by Current Revenue – Mitigating Actions:

- Annual review of all programs, positions, stipends, and contractual services to ensure alignment with current enrollment levels, available revenue, and statutory requirements. Programs or positions identified as no longer supported by ongoing revenue will be evaluated for reduction, restructuring, or elimination: To be determined.
- Implement enrollment-based staffing and budget allocation models to ensure personnel and program costs adjust proportionately with changes in student enrollment and revenue: Stated in section 1 above.
- Review of all existing contracts and stipends to assess necessity, cost-effectiveness, and funding sustainability. Contracts and supplemental payments not aligned with current operational needs or recurring funding sources: To be determined.

Risk area 3

Risk area(s):

Capital budget limit reserve

Identified causes:

1. Capital Expenditures Reduced Available UCO Budget Capacity in FY25

The district's 35.1% one-year decline was due to the movement of DAA funding to M&O to balance the budget. The District was able to build up reserves in UCO by utilizing other funding sources, such as

Cash controlled funds:

- 020 – Instructional Improvement

- 290 – Medicaid Reimbursement
- 306 – Impact Aid
- 349 – National Forest Fees
- 378 – Impact Aid
- 500 – School Plant
- 585 – Insurance Refund

. Rising costs for aging facilities, HVAC systems, transportation fleet needs, safety upgrades, and instructional technology continue impact capital spending.

2. Declining Enrollment Reduced the District’s Capital Budget Limit

SVUSD’s weighted student count has decreased over the past several years. Because a district’s capital budget limit is partially based on student count, declining enrollment reduced available capital spending authority. Even routine capital needs now consume a larger share of the limit, contributing to the reserve decline.

3. Facilities Footprint Still Reflects a Larger Historical Enrollment

SVUSD continues to maintain and operate a facilities footprint designed for a higher number of students. Multiple aging campuses require ongoing capital investment for maintenance, repairs, technology, and equipment. Until the footprint is aligned with current enrollment levels (e.g., school consolidation, property disposition), capital needs could outpace available resources.

Planned mitigating actions:

1: Capital Expenditures Exceeded Available UCO Budget Capacity

A. Implement a Capital Expenditure Freeze and Prioritization System to mitigate a potential future over expenditure of the UCO Fund:

- Freeze all non-essential capital expenditures for the remainder of FY26.
- Approve only Tier 1 essential items: safety, compliance, critical failure, and operational continuity.
- Require Superintendent + Business Office approval for any capital request above a set threshold (e.g., \$5,000).

Expected Impact: Slows reserve decline immediately and preserves remaining UCO capacity.

B. Defer or Stretch Replacement Cycles (Fleet, HVAC, Tech):

- Extend replacement cycles 1–2 additional years except in cases of failure.
- Pool technology refreshes across fewer sites as consolidation occurs.
- Delay discretionary renovations or enhancements.

Expected Impact: Reduces annual capital demand by an estimated 10–20%, depending on categories deferred.

2. Declining Enrollment Reduced the District’s Capital Budget Limit

A. Adjust the Facilities Master Plan to Match Enrollment Trends

- Continue the planned closure of an elementary school.
- Redirect capital savings from the closure (land and building improvements, repurpose equipment and eliminate need to purchase future equipment or technology reduction in expenditures for curriculum related materials) to rebuild the UCO reserve.
- Integrate enrollment projections into annual capital planning so spending matches revenue capacity.

Expected Impact: Significant multi-year reduction in capital needs; stabilizes future reserves.

B. Strengthen Enrollment Stabilization & Retention Strategies

Even modest enrollment increases grow capital limit capacity. Actions include:

- Customer service training and districtwide customer experience standards.
- Attendance blitz (Jan–April) to re-engage families.
- Marketing of district strengths (STEAM, drones, PBIS, etc.).
- Streamlined enrollment and parent communication processes.

Expected Impact: Increased WSC strengthens capital capacity in future fiscal years.

3. Facilities Footprint Still Reflects Higher Historical Enrollment

A. Rightsize the District Footprint Through Consolidation and Repurposing

- Close one elementary school (already planned).
- Sell or lease the district office property.
- Utilize our facilities condition assessment (FCA) to determine which buildings warrant continued capital investment.
- Consolidate programs into fewer campuses to reduce duplicate capital loads.

Expected Impact: Major long-term reduction in capital expenditures across utilities, HVAC, roofs, technology, playgrounds, and fleet needs.

B. Establish a “No Capital Investment” Rule for Sites Identified for Closure or Repurposing

- No capital dollars spent on campuses scheduled for closure unless tied to safety or compliance.
- Transition maintenance on these sites to minimal-preservation mode.
- Redirect planned expenditures to priority campuses that will remain open.

Expected Impact: Redirects tens of thousands of dollars annually back into the capital reserve and prevents waste.

Estimated financial impact of planned mitigating actions:

1. Spending levels in M&O required the transfer of DAA to M&O to balance the budget

A: Capital Expenditure Freeze & Prioritization System: \$300,000–\$450,000 in FY25 savings

Rationale:

SVUSD's typical annual UCO spending pattern suggests 15–25% is discretionary or deferrable. Freezing this can recapture a third of a million dollars in one year.

B. Defer or Stretch Replacement Cycles (Fleet, HVAC, Tech): \$150,000–\$300,000 annually (FY25–26)

What's included:

- Delaying bus replacements unless failure is imminent
- Stretching HVAC life cycles using enhanced preventive maintenance
- Consolidating technology refresh schedules and reducing per-site purchases

Rationale:

A single bus is \$140,000+. Even deferring one bus and one HVAC unit plus reducing tech refresh volume produces savings in this range.

2: Declining Enrollment Reduced Capital Budget Limits

A. Align Facilities Master Plan to Enrollment (Including School Closure): as noted above, annually beginning FY26

What's included:

- Eliminating capital needs (HVAC, playground, roof repairs, replacements) at the elementary school to be closed
- Reduced technology replacements
- Reduced custodial equipment, furniture, classroom sets
- Lower utilities and grounds capital repairs

Rationale:

An average AZ elementary site consumes \$350k–\$600k in capital-eligible needs annually when including aging systems, tech cycles, and general repairs.

B. Enrollment Stabilization & Retention Efforts: \$50,000–\$150,000 increase in future capital capacity

What's included:

- Increasing weighted student count (WSC) by even 15–40 students through retention and improved customer service
- Slight upward adjustment to capital budget limit the following fiscal year

Rationale:

Each additional WSC increases both M&O and UCO limits. Even modest enrollment gains generate meaningful increases in capital limit capacity.

3: Facilities Footprint Too Large for Current Enrollment

A. Rightsizing Footprint (Closure + Sale/Lease of Property):

- Savings are noted in risk area 2 section 4.

What's included:

- Eliminating capital spending at closed sites
- Avoiding large-ticket roof, HVAC, and technology replacements
- Reducing playground, flooring, and equipment replacement
- Redirecting property disposition (lease/sale) revenue to rebuild reserves

Rationale:

Sites with aging systems are expensive to maintain. Removing two facilities from the active footprint produces substantial multi-year savings.

B. "No Capital Investment" Rule for Closure/Purposed Sites: \$100,000–\$200,000 annual preservation savings

What's included:

- Avoiding capital projects on sites marked for closure
- Reducing reactive HVAC, plumbing, or electrical work that would otherwise be completed out of habit
- Limiting deferred maintenance to minimal safety-only repairs

Rationale:

Cutting this spending protects the UCO reserve immediately.

Risk area 4

Risk area(s):

Capital monies redirected to operations

Identified causes:

Identified Causes for Capital Monies Redirected to Operations

1. Structural M&O Budget Imbalance Due to Enrollment Declines

Declining student enrollment has reduced the district's M&O budget limit, but operational costs (staffing, utilities, transportation, required services) have not decreased at the same pace. This structural imbalance required redirecting capital funds to cover ongoing operational expenses.

2. High Personnel Costs and Staffing Levels Not Fully Aligned to Enrollment

Salary and benefit obligations—especially in a people-intensive sector like education—consume the majority of M&O. Maintaining staffing patterns that no longer match enrollment levels has increased operational costs beyond the district's M&O capacity, leading to reliance on DAA redirection to balance the budget.

3. Limited Flexibility in the Operational Budget Due to Fixed or Mandated Costs

Certain expenditures (special education, transportation, utilities, insurance premiums, and required instructional services) are mandated or fixed. With fewer discretionary dollars in M&O, the district redirected capital funds to ensure essential services could continue without violating legal or contractual requirements.

4. Past Practice of Using DAA for Operational Stability Rather Than Capital Planning

Over several years, the district used a portion of DAA to stabilize the operational budget rather than preserving capital capacity. This pattern of reliance, once established, became difficult to reverse, especially once ESSER ended and no supplemental funds remained to offset the operational deficit.

Planned mitigating actions:

Mitigating Actions for Capital Monies Redirected to Operations

1. Structural M&O Budget Imbalance Due to Enrollment Declines

Mitigating Actions:

- Implement multi-year right-sizing of staffing and operational costs based on current and projected enrollment (including reducing 20+ FTE through attrition, consolidation, and formula-driven staffing).

- Close one elementary school and realign boundaries, reducing fixed operational costs (utilities, maintenance, administration, transportation inefficiencies).
 - Develop a 3-year operational spending plan limiting M&O growth to sustainable levels.
-

2. High Personnel Costs and Staffing Levels Not Fully Aligned to Enrollment

Mitigating Actions:

- Adopt districtwide staffing formulas for class sizes, specialists, paraprofessionals, and administrative roles to ensure staffing levels match enrollment.
 - Increase use of grant funding (Title I, II, IV, IDEA, and impact funds) to absorb eligible positions currently funded in M&O.
 - Prioritize attrition-based reductions to minimize impact while reducing personnel expenditures.
-

3. Limited Flexibility in the Operational Budget Due to Fixed or Mandated Costs

Mitigating Actions:

- Renegotiate or bid out high-cost service contracts (transportation, food service, insurance) to reduce long-term obligations.
 - Implement districtwide utility and energy-efficiency strategies to lower fixed cost burdens (LED lighting, HVAC scheduling, water conservation).
 - Establish mandated-cost funding priorities to ensure required services are funded first within M&O before discretionary spending is considered.
-

4. Past Practice of Using DAA for Operational Stability Rather Than Capital Planning

Mitigating Actions:

- Set a phased reduction target (e.g., 20–25% per year) for DAA redirection to decrease reliance over time.
- Create and adopt a priority-based capital plan to guide responsible use of DAA, avoiding emergency capital costs that would put additional pressure on M&O.
- Increase non-tax revenue by leasing district properties, expanding facility rentals, and exploring appropriate asset liquidation to support capital needs.

Estimated financial impact of planned mitigating actions: All from prior risk areas, no additional savings.

Mitigating Actions + Estimated Impact

1. Implement multi-year right-sizing of staffing and operational costs

- Reduction of 20+ FTE through consolidation, attrition, and scheduling efficiencies
Estimated Impact: \$500,000–\$1,000,000 annually

2. Close one elementary school and realign boundaries

- Eliminates duplicated admin, office staff, utilities, maintenance, and site-level operational costs
Estimated Impact: \$350,000 annually

3. Create a 3-year controlled spending plan limiting M&O cost growth

- Tightens discretionary spending, substitutes capital for one-time purchases, reduces midyear overages
Estimated Impact: \$150,000–\$300,000 annually

TOTAL ESTIMATED IMPACT (Cause 1): \$2.05M–\$3.2M annually

Cause 2: High Personnel Costs and Staffing Levels Not Aligned to Enrollment

Mitigating Actions + Estimated Impact

1. Adopt districtwide staffing formulas

- Aligns class sizes, specialists, paraprofessionals, and support staff to enrollment
Estimated Impact: \$200,000–\$500,000 annually

2. Shift eligible positions to grants (Title I, II, IV, IDEA, Impact Aid)

- Moves interventionists, paraprofessionals, instructional coaches, and PD costs off M&O
Estimated Impact: \$100,000–\$300,000 annually

3. Prioritize attrition-based reductions

- Reduces costs without layoffs through natural turnover
Estimated Impact: \$250,000–\$400,000 annually

TOTAL ESTIMATED IMPACT (Cause 2): \$1.25M–\$1.95M annually

Cause 3: Limited Flexibility in M&O Due to Fixed or Mandated Costs

Mitigating Actions + Estimated Impact

1. Rebid/renegotiate high-cost service contracts

- Insurance, transportation, software, and food services
Estimated Impact: \$150,000–\$300,000 annually

2. Implement districtwide utility/energy efficiency measures

- HVAC schedules, LED retrofits, water conservation, solar optimization
Estimated Impact: \$100,000–\$250,000 annually

3. Establish mandated-cost funding priorities

- Reduces discretionary M&O spending to protect operational stability
Estimated Impact: \$75,000–\$150,000 annually

TOTAL ESTIMATED IMPACT (Cause 3): \$325,000–\$700,000 annually

Cause 4: Past Practice of Using DAA for Operational Stability

Mitigating Actions + Estimated Impact

1. Phased reduction of DAA redirection (20–25% annually)

- Reduces reliance on capital; shifts expenses back into sustainable M&O planning
Estimated Impact: \$500,000–\$700,000 annually

2. Create a priority-based capital plan

- Prevents emergency repairs that cost 20–30% more
Estimated Impact: \$150,000–\$300,000 annually (avoided costs)

3. Increase non-tax revenue through asset optimization (leasing/selling property)

- Lease of district office or other unused facilities + expanded rentals
Estimated Impact: \$300,000–\$600,000 annually

Implementation timeline

School district name: Sierra Vista Unified

Date: 12/09/2025

Immediate actions

I. Immediate Actions (0–3 Months)

(Begin now; some savings this year, with larger impact in short/long term)

A. Spending Controls & Monitoring

1. Districtwide non-essential spending freeze (GF)
 - What: Freeze travel, conferences, non-critical PD, discretionary supplies, non-essential overtime; centralize approval for higher-dollar General Fund purchases.
 - Risk areas previously addressed: R2 and R4
 2. Capital expenditure freeze with Tier 1 priority system (UCO)
 - What: Freeze non-essential capital purchases; approve only safety/compliance/critical failure items; Superintendent/Business approval above threshold.
 - Risk areas previously addressed: R3, R4
 3. Monthly budget monitoring dashboard & Cabinet routine
 - What: Create and use a monthly dashboard for M&O, UCO, GF margin, reserves, DAA redirection.
 - Risk areas previously addressed: R2, R3, R4
-

B. Enrollment & Customer Experience “Quick Start” Actions

4. Launch “Return to SVUSD” / Year-Round Enrollment & Retention efforts (Phase 1)
(Homeschool families, choice leavers, withdrawn students)
 - What: Outreach to homeschool/withdrawn families, tours, shadow days, rapid response to inquiries, social media/on-base marketing.
 - Risk areas previously addressed: R1, R2, R4
5. Kinder Round-Up / PreK–K Recruitment campaign (planning + first events)
 - What: Kinder Round-Up blitz, early registration, outreach to military families and local preschools.
 - Risk areas previously addressed: R1, R2, R4
 - Short-/long-term: Revenue effects as these cohorts enter and stay in the system.
6. Adopt SVUSD “Service Promise” + launch initial front office/leader training
 - What: Districtwide customer service standards; first round of training and scripts for phone/email/in-person interactions.
 - Risk areas previously addressed: R1, R2, R4
7. Improve enrollment experience (central support & welcome kits)

- What: Central enrollment support line/contact; New Family Welcome Kits; dedicated enrollment greeter at each school.
 - Risk areas previously addressed: R1, R2, R4
8. Set up customer feedback & follow-up system
- What: Simple survey/feedback tool with guaranteed follow-up.
 - Risk areas previously addressed: R1, R2, R4

C. Contract & Cost Work Started Immediately

9. Begin high-cost contract review / renegotiation planning
- What: Identify top high-cost services (e.g., transportation, insurance, food service, large software contracts) and prepare for rebid/renegotiation.
 - Risk areas: R2, R3, R4

Actual financial impact of implemented immediate actions

1. Immediate Actions (0–3 Months)

Includes:

- GF spending freeze
- Capital spending freeze
- Budget monitoring dashboard
- Enrollment quick-start (homeschool outreach, Kinder blitz, customer-service rollout, etc.)

Total Estimated Annual Financial Impact

→ \$1,900,000 – \$3,370,000

How This Breaks Down

Immediate Action	Low Estimate	High Estimate
GF Spending Freeze & Controls	\$250,000	\$400,000
Capital Freeze & Deferrals	\$450,000	\$750,000
Monthly Budget Monitoring Improvements	\$150,000	\$320,000
Enrollment & Customer Service Revenue Gains (combined estimate of homeschool, enrollment, birth-rate mitigation, school-choice competition, service improvements)	\$1,050,000	\$1,900,000
TOTAL	\$1,900,000	\$3,370,000

Short-term actions

Populate the field below with planned actions described above that will be taken within the next 4 to 12 months as well as the target completion date.

II. Short-Term Actions (4–12 Months)

(Implementation primarily in next budget cycle, with the first full year of savings or revenue gains)

A. Staffing & Structural Alignment (High-Dollar Impact)

1. Implement staffing ratio alignment across all sites
 - What: Apply staffing formulas (teachers, paras, office, admin, monitors, custodial) based on actual enrollment; reduce positions via attrition and vacancy management.
 - Risk areas: R2 and R4
 2. Identify and implement 20+ FTE reductions via attrition and realignment
 - What: Do not refill certain vacancies; reassign existing staff; reduce temporary/extra-duty positions.
 - Risk areas: R2 and R4
 3. Shift allowable positions and costs into grants
 - What: Move interventionists, PD, instructional coaches, and some SPED/EL/ESS costs to Title I/II/IV, IDEA, Impact Aid when allowable.
 - Risk areas: R2 and R4
 4. Program/position audit: eliminate or restructure low-impact items
 - What: Districtwide audit of programs, stipends, and contracts; phase out or restructure low-impact/duplicative services.
 - Risk areas: R2 and R4
-

B. Site & Facility Consolidation / Footprint Changes

5. Close one elementary school and realign boundaries (operating side)
 - What: Implement planned closure; reduce admin/office/custodial/monitor/health aide costs, and associated transportation.
 - Risk areas: R1, R2, R4
 6. Elementary school closure & footprint change (capital side)
 - What: Remove closed site from capital replacement cycles (roofs, HVAC, playgrounds, tech, etc.).
 - Risk areas: R2 and R3
 7. Move District Office into an existing campus and lease/sell property
 - What: Relocate DO; lease or sell existing DO facility; redirect proceeds.
 - Risk areas: R2, R3, R4
-

8. Apply “No Capital Investment” rule for closure/repurpose sites
 - What: Only safety/compliance capital spending at sites slated for closure/repurposing.
 - Risk areas: R3 and R4
-

C. Operational Cost Efficiencies

9. Transportation routing optimization
 - What: Redraw routes post-consolidation to reduce miles, time, and fuel.
 - Risk areas: R2, R4
 10. Custodial and utilities optimization
 - What: Reduce custodial FTE and supply budgets; implement energy schedules; close unused wings/buildings.
 - Risk areas: R2, R3, R4
 11. Rebid / renegotiate high-cost contracts (from immediate planning)
 - What: New contracts in place following review started in immediate term.
 - Risk areas: R2, R3, R4
-

D. DAA Redirection and M&O Growth Controls

12. Implement phased reduction of DAA redirection (first 20–25%)
 - What: Reduce the portion of DAA/capital redirected to operations, shifting the system toward sustainable M&O planning.
 - Risk areas: R2, R3, and R4
13. Implement first year of 3-year M&O cost growth plan
 - What: Limit growth in M&O costs to an agreed cap; prioritize required/mandated services before discretionary spending.
 - Risk areas: R2 and R4

Actual financial impact of implemented short-term actions

Short-Term Actions (4–12 Months)

Includes:

- Staffing formula implementation
- 20+ FTE reductions (attrition)
- Grant-shifting of eligible positions
- Program/position audits
- School closure (operating + capital savings)
- DO move & property lease/sale

- No capital investment rule
- Contract renegotiations
- Transportation, custodial, utilities optimization
- DAA redirection reduction
- First year of 3-year M&O cost controls

Total Estimated Annual Financial Impact

→ \$4,200,000 – \$7,200,000

How This Breaks Down

Short-Term Action	Low Estimate	High Estimate
Staffing Formula Alignment	\$700,000	\$1,200,000
Attrition Reductions (20+ FTE)	\$500,000	\$1,000,000
Grant Shifts	\$350,000	\$600,000
Program/Position Audit	\$200,000	\$300,000
Phase-Out of Duplicative Programs	\$150,000	\$300,000
School Closure (Operating Savings)	\$300,000	\$300,000
School Closure (Capital Savings)	\$350,000	\$600,000
DO Relocation + Lease/Sale Revenue	\$450,000	\$800,000
No Capital Investment Rule	\$100,000	\$200,000
Transportation Optimization	\$200,000	\$350,000
Energy/Utilities Optimization	\$100,000	\$250,000
Contract Renegotiations	\$150,000	\$300,000
DAA Redirection Reduction	\$500,000	\$700,000
M&O Controlled Spending Plan	\$150,000	\$300,000
TOTAL	\$4,200,000	\$7,200,000

Long-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

III. Long-Term Actions (Beyond 12 Months)

(Structural changes that keep paying off and continue stabilizing reserves and fund balance)

Most of the short-term actions above **become long-term** once they are sustained. In your template, you can show them as:

- **“Immediate/Short-term implementation; Long-term ongoing annual impact = [same \$ range].”**

Key long-term actions and their ongoing impacts:

1. Sustained enrollment, retention, and customer service strategy
 - Combined long-term annual revenue impact from:
 - Homeschool recapture: +\$150,000–\$300,000
 - Competition from schools of choice: +\$300,000–\$500,000
 - Customer service improvement: +\$150,000–\$300,000
 - Note: Overlapping but clearly shows that continued investment in enrollment and service can yield several hundred thousand dollars annually.
2. Ongoing staffing alignment to enrollment (plus attrition)
 - Sustained annual expenditure reductions from staffing formulas, FTE reductions, and grant shifts:
 - Combined range (acknowledging overlap): roughly \$1,000,000–\$2,000,000 in annual GF relief once fully implemented and maintained.
3. Permanent facility footprint reduction
 - Ongoing savings from:
 - Closed elementary school (operating): \$300,000 annually
 - Closed elementary school (capital): \$350,000–\$600,000 annually
 - DO move + lease/sale of property: \$300,000–\$550,000 + \$150,000–\$250,000 annually
 - No-capital-investment rule at closed/repurposed sites: \$100,000–\$200,000 annually
4. Structural improvements in spending controls, monitoring, and contracts
 - Sustained annual impact from:
 - Spending freezes/controls: \$250,000–\$400,000
 - Centralized purchasing & monitoring: \$150,000–\$320,000
 - Contract rebids: \$150,000–\$300,000
5. DAA redirection reduction and capital planning
 - Long-term effect of moving away from using capital to prop up operations:
 - DAA redirection reduction: \$500,000–\$700,000 annually
 - Priority-based capital plan and avoided emergency repairs: \$150,000–\$300,000 annually
 - Asset optimization (leasing/selling properties): \$300,000–\$600,000 annually

Actual financial impact of implemented long-term actions

Long-Term Actions (12+ Months)

Includes sustained benefit from:

- Enrollment & retention strategies
- Customer service transformation
- Fully right-sized staffing model
- Consolidated facilities footprint (school closure + DO move)
- Long-term contract efficiencies
- Recurring savings from reduced DAA redirection
- Capital plan stabilization
- Long-term M&O cost control

Total Estimated Annual Financial Impact

→ \$5,250,000 – \$9,100,000

How This Breaks Down

Long-term impact =

◆ All short-term structural changes sustained

PLUS

◆ ongoing enrollment and customer service revenue gains

Long-Term Component	Low Estimate	High Estimate
Short-Term Actions (recurring)	\$4,200,000	\$7,200,000
Long-Term Enrollment/Retention Revenue Gains	\$1,050,000	\$1,900,000
TOTAL	\$5,250,000	\$9,100,000

Final Summary

Action Level	Total Annual Financial Impact
Immediate (0–3 months)	\$1,900,000 – \$3,370,000
Short-Term (4–12 months)	\$4,200,000 – \$7,200,000
Long-Term (12+ months)	\$5,250,000 – \$9,100,000

Attachment K

Financial Risk Action Plan

Tucson Unified School District

Financial risk action plan

For more information about this template or the Arizona Auditor General's financial risk analysis, download our financial risk action plan [guidance PDF](#).

School District name: Tucson Unified School District

Date: January 9, 2026

Risk area 1

Risk area(s):

Change in Weighted Student Count

Error! Reference source not found. Identified causes:

1. **Empowerment Scholarship Accounts (ESA).** The universal expansion of ESA's across Arizona has been detrimental to the enrollment in Tucson Unified. Approximately 2% of the total statewide enrollment in ESA's is comprised of students from Tucson Unified.
2. **Birth Rates.** The birth rates across Arizona have declined by 20.3% since the FY2020. In Pima County, the decline of school-aged children has declined by 5%, which has a greater impact on Tucson Unified as the largest Southern Arizona school district.
3. **Immigration/Mobility.** The greatest decline in enrollment across the State has been the mobility away from large, urban school districts like Tucson Unified towards suburban school districts and other school choice models. In Pima County, the three largest urban school districts have lost an average of 10% in student enrollment since FY2020, while enrollment in suburban district has increased by an average of 7%. Moreover, the political climate in Arizona and around the country, families of mixed immigration backgrounds are finding themselves making difficult choices to move out of Tucson Unified.
4. **Charter Schools.** Charter schools continue to be a competitor in the school choice options across Tucson and Pima County. Charter school enrollment comprises about 2 out of every 10 students in public schools in Pima County, with the majority of charters located within the boundaries of Tucson Unified.

Planned mitigating actions:

1. **External Consulting:** Tucson Unified contracted with an external consultant, *Caissa K-12*, to work with the district's Student Placement & Enrollment (SPE) Department to create a strategy focusing on students who have withdrawn from Tucson Unified, submitted an enrollment form and did not register or were no-shows for the 2025-26 school year. The consultant engages with families to connect them with the SPE Department to reconnect them with a Tucson Unified school. Finally, this is a performance-based contract.
2. **Media Campaign:** Tucson Unified has implemented a strategic media campaign to create messaging around the unique programs and opportunities offered in district schools. The focus has been around standout programs in Fine Arts & Performing Arts, Career and Technical Education, Magnet schools, and college-preparatory programs unique to Tucson Unified. The media campaign included direct mail solicitations to families in areas beyond Tucson Unified, as well as families who were enrolled and left the district.
3. **Expanded Transportation:** Tucson Unified has expanded student transportation for all students who wish to attend a Tucson Unified school. The Governing Board changed the boundaries to increase eligibility students living in the district. The district provides student transportation services to all open enrollment students, with bus stops extending beyond the boundaries of Tucson Unified.
4. **K-6 School Models:** Over the last 2 school years, the Governing Board has authorized the creation of 13 K-6 elementary schools. The expansion of a 6th grade into these traditional K-5 elementary schools enabled the district to help retain students who are promoting to a middle school. Tucson Unified has found that one of the steepest declines in student enrollment is between elementary and middle school grades, with almost half of these students not returning to a high school in Tucson Unified. By retaining these students in their elementary for 6th grade, it has enabled the district to create a stronger foundation to prepare elementary students for middle school, while increasing retention.

Estimated financial impact of planned mitigating actions:

The work of the External Consultant has yielded approximately 419 students returned in 2023 and 2024, with an estimated 250 students returning for the 2024-25 school year. This has allowed the district to stabilize its financial picture by approximately \$3.8 million over 3 years.

The expansion of K-6 schools allowed the district to grow the retention of 6th grades by nearly 7% in the 2024-25 school year. For the 2025-26 school year, preliminary results show that the decline in 6th grades was only 3% based on the projected 100th day enrollment with a strong retention in 7th grade for those students who were promoted from last school year. This allowed the district to stabilize its budget approximately \$1 million.

The current decline in average daily membership from the 2024-25 school year to the 2025-26 school year is approximately 2.2% -- valued at about \$5 million loss in budget capacity. Through the efforts of the media campaign and transportation expansion, the goal is to stabilize enrollment by the end of the current school year to reduce the loss by at least half to decrease the budget capacity loss by \$2.5 million. The impact will be measured by the end of the 2025-26 school year.

Risk area 2

Risk area(s):

Operating Budget Limit Reserve, General Fund Operating Margin Ratio & General Fund Change in Fund Balance

Identified causes:

1. **ESSER:** Tucson Unified received the largest allocation of ESSER funds from Fiscal Year 2020-21 through 2023-24. This enabled the district to cover several expenses that would otherwise be expensed through Maintenance & Operations. These created an artificially higher budget balance carryforward. From the start to the end of ESSER, the budget balance increased by 67%. This created an artificially higher budget balance carryforward. Moreover, at the end of ESSER, the Governing Board opted to “save” some position from ESSER into Maintenance & Operations to continue working beyond the life of the grant.
2. **Increased Salary Costs:** Over the course of the last 3 fiscal years, the Governing Board authorized several increases in compensation due to difficulty in recruitment and retention of critical positions, to address compression, and to provide general salary increases related to cost of living. In FY21, the personnel costs in Maintenance & Operations were \$195.2 million, while at the end of FY25, the costs were \$238.3 million – an increase of 22% over 4 years. These increases in compensation are ongoing costs for the district that have forced the district to use one-time fund balance funds to cover these costs.
3. **Increases in Benefits Costs:** During the height of the pandemic, the Governing Board made the decision to cover the costs of any increases in benefits. Initially, this was covered using ESSER funds, but since FY23, the Governing Board has decided to continue subsidizing the cost of these benefit increases for employees. However, the increase in benefits expenses for employees has increased faster than the district’s capacity to hold employees harmless from future increases. The increase in FY25 was approximately 5%, in FY26 the increase was approximately 3.3%, but for FY27, the increase is expected to rise by 12%. This is a result of renegotiation of contracts by providers with insurance companies.
4. **Increases in Utilities Costs:** Over the last 3 fiscal years, Tucson Unified has experienced several increases in the cost utilities – primarily in electricity – but also in water and natural gas. In September 2023, Tucson Electric Power increased its rates by approximately 10% as well as an increase in surcharges. In March 2025, Southwest Gas increased its rate by an average of 8%. Finally, in 2023, Tucson Water increases its rates by approximately 19% for commercial rates. From FY23 to FY24, the increase across all utilities was 275% from \$2.2 million to nearly \$6 million, by FY27, the district expects another rate increase from Tucson Electric Power that would yield another 7% increase – approximately \$600,000.

5. **Desegregation Budget Deficit:** Over the last several years, the district's Desegregation budget has incurred a deficit that has required that it be "covered" by non-Desegregation Maintenance & Operations Funds. Because the Legislature has capped the budget limit for Desegregation funding at the 2009-10 fiscal year level, there is no provision to accommodate any inflationary increases in expenses for providing support in the district's Desegregation programs. Currently, the limit for Tucson Unified is \$63,711,047. However, due to increases in salaries, benefits, and other operating expenses many of the programs are unable to absorb these increased costs. Previously, the district has used savings from turnover and attrition within Desegregation to offset the overage, but the increased costs has depleted the ability to access these vacancy savings.
6. **State Revenue Limits & Low Per Pupil Funding:** For the 2024-25 and 2025-26 fiscal year, the State funding formula is inadequate and the Legislature is unable to provide the funding necessary to support the increases in the fixed operating expenses of the district. In both cases, the Legislature has provided a 2% increase to the Base Support Level, even though the inflationary costs to the district exceed an average of 8%.
7. **Increased Reliance on One-Time Budget Balance Carryforward:** In FY24, the net loss of revenue to expenditures in the General Fund was approximately \$12 million, in FY25 it is estimated at approximately \$33 million. The district's increased operating expenses have put it in a position to use one-time expenses to mitigate these ongoing budget demands.
8. **Transfer of District Additional Assistance to Maintenance & Operation:** When voters approved Proposition 496, the \$480 million School Improvement Bond, the district decided to allocate \$10 million from District Additional Assistance to Maintenance & Operations, which changed the apportionment of revenues between the funds for both State Aid and property taxes. This was not corrected when the reallocation took place; therefore, more revenues were posted to the Unrestricted Capital Outlay Fund versus the Maintenance & Operations Fund.

Planned mitigating actions:

1. **Maintenance & Operations Override:** In November 2025, the voters of Tucson Unified approved its first 15% Maintenance & Operations budget override in more than 40 years. The additional capacity will not solve the operating deficit but will provide the ability for the district to address other needs that are currently the focus of the district's base level Maintenance & Operations budget. The influx of funds will enable the district to address compensation through budget override funds.
2. **Desegregation Zero Based Budgeting Process:** For the 2025-26 fiscal year, the district implemented a "zero based budget" (ZBB) approach for all programs funding within Desegregation funds. The ZBB concept requires all departments using Desegregation funds to begin their budgets "from scratch" and justify their needs to the district's administration

and Governing Board. The process was generally successful. The goal was to achieve a 10% reduction in expenses but based on input from the Governing Board and needs from departments, the district achieved a reduction of 3%. This cut the Desegregation budget deficit in half for the 2025-26 fiscal year.

3. **FY26 Central Department Budget Reductions:** As an additional way to support the viability of the Maintenance & Operations budget, the district implemented budget reductions of 3% and 6%. Departments that provide instructional services, student support services or instructional support services were reduced by 3%, while departments in administration, operations and plant services, and transportation were reduced by 6%.
4. **Hiring Freeze and Position Closures:** In Spring 2025, the district implemented a districtwide hiring freeze for all central positions except those that provide direct student services. The district conducted a hiring freeze through the end of the 2024-25 fiscal year, and departments had the responsibility to evaluate the ongoing need of these positions after the freeze concluded. Departments were able to identify positions to permanently close going into the 2025-26 fiscal year.
5. **FY27 Central Department Budget Reductions:** The district will implement an additional budget reduction across all central departments. Departments will be expected to reduce their non-Desegregation Maintenance & Operations budget by 7% for the 2026-27 fiscal year. Exceptional Education, Facilities Management, Fine Arts, and Interscholastics will be required to reduce by 2%. In addition, there will be targeted reductions of specific ongoing investments that generally funded through central departments, above-and-beyond the 7% reduction.
6. **Additional Cost Reductions Beyond FY27:** The district will implement additional cost reductions beyond FY2027 with the focus on reducing the district's operating expenses in Maintenance & Operations by \$25 million by the end of FY2030. These additional reductions have not been identified but are incorporated into the district's 5-year financial projection.
7. **Energy Efficiency Measures/Building Optimization:** The Bond Program has hired an external consultant to implement an Investment Grade Audit (IGA) to provide an evaluation on implementation of the bond program to generate cost savings through efficiencies and optimization through the Bond Program.
8. **Recalculation of Property Tax and State Aid Revenue Apportionment:** Tucson Unified has updated the reapportionment calculation for the 2025-26 fiscal year to account for the increased budget capacity from the \$10 million reallocation from District Additional Assistance. Moreover, a reallocation of revenue will be reviewed for the 2024-25 fiscal year to redistribute and correct the apportionment.

Estimated financial impact of planned mitigating actions:

1. The Maintenance & Operations Override will provide approximately \$45 million in additional budget capacity through FY2031, before the first reduction begins to phase-in during FY2032.
2. The Desegregation Zero Based Budgeting Process permanently reduced expenditures by nearly \$2.7 million. Moreover, the Reading and Math Intervention Teachers paid with Desegregation funding will be “moved” to the Override in the 2026-27 fiscal year, which will yield an additional \$4 million in savings, and bring the Desegregation budget into balance.
3. The FY25 Central Department Budget Reductions yielded approximately \$2.1 million in permanent savings to the district’s Maintenance & Operations budgets.
4. The Hiring Freeze and Position Closures identified positions that totaled approximately \$3.7 million salary and benefits savings in Maintenance & Operations. These positions were closed permanently or were moved to another funding source that could sustain them long-term.
5. The 7% reductions across departments is estimated to yield \$3.3 million, with the departments who are required to cut 2% expected to contribute another \$690,000. The additional reductions identified are estimated at \$4.5 million. The total expected reduction from these areas is approximately \$8.2 million for FY27, with a permanent reduction of 77.5-FTE positions in the Maintenance & Operations budget.
6. Tucson Unified will need to identify additional cost reductions in FY2028 and beyond to balance the structural deficit that is ongoing in the district’s Maintenance & Operations budget. Currently, the estimate is to procure another \$15 million in permanent reductions beyond FY27. The total reduction projected by the end of the 2029-30 fiscal year is approximately \$25 million.
7. The IGA has currently generated \$725,000 in energy savings to the district. The next phase of the IGA is expected to generate another \$1.5 million in energy savings.
8. The correction of the apportionment of revenues will redistribute an additional \$16.1 million in revenues to the Maintenance & Operations Fund from the Unrestricted Capital Outlay Fund.

Risk area 3

Risk area(s):

Capital Budget Limit Reserve & Capital Monies Redirected to Operations

Identified causes:

In November 2023, the voters of Tucson Unified approved of a \$480 million school improvement bond program. This enabled the district to move renovation and building improvement projects, among other needs, from the district's Unrestricted Capital Outlay to the new Bond program. By relieving the ongoing responsibility from Capital to Bond, this created additional budget capacity that could be accessed by the Maintenance & Operations budget to create additional capacity. Starting in the 2024-25 fiscal year, the district transferred \$10 million of District Additional Assistance to the Maintenance & Operations budget to stabilize the district's ongoing operating expenses, outside of Capital. This resulted in causing the district to use cash on hand in the Capital budget for non-bond related projects and increased investments in the district's instructional capital, specifically around updated textbook adoptions.

Planned mitigating actions:

1. Beginning in the 2026-27 fiscal year, the district is planning on reducing the District Additional Assistance transfer by \$7 million – from \$10 million to \$3 million. By the 2027-28 fiscal year, the district will eliminate the transfer from District Additional Assistance in its entirety.
2. The district's Chief Financial Officer and Chief Operating Officer will develop a Capital Improvement Plan (CIP) in order to create a long-term strategy related to short-term capital needs for the district that positions the Unrestricted Capital Outlay fund to support capital needs in a deliberate manner to avoid over-extending the use of the Capital fund, while meeting the immediate needs of the district. The district's Chief Financial Officer and Assistant Superintendent for Curriculum and Instruction have designed a 5-year instructional capital plan to invest in modernization of all the district's textbook adoptions through FY2030.
3. The district will continue to leverage the use and access of Building Renewal Grants (BRG) through the School Facilities Division to support major improvements.

Estimated financial impact of planned mitigating actions:

Over the course of the next two fiscal years, the budget limit reserve will increase by approximately \$7 million in 2026-27 and another \$3 million in 2027-28. Moreover, the implementation of a CIP will enable the district to focus on planning the short-term capital needs of the district without depleting Capital funds excessively in any single year. The district will ensure that it continues to leverage the use of Building Renewal Grants (BRG). Since FY2020, the district has received approval for 237 BRG-funded projects totaling nearly \$54 million.

Implementation timeline

School district name: Tucson Unified School District

Date: December 12, 2025

Immediate actions

Populate the field below with planned actions described above that will be taken **within the next 3 months** as well as the **target completion date**. You may include first steps for short- or long-term actions.

1. Expanded Transportation: completed August 4, 2025
2. K-6 Models: completed August 4, 2025
3. Desegregation Zero-Based Budget Process: completed August 4, 2025
4. FY26 Central Department Cuts: completed July 1, 2025
5. Position Reductions & Hiring Freeze: completed June 30, 2025
6. Property Tax & State Apportionment Review: January 9, 2026

Actual financial impact of implemented immediate actions

The financial impacts to the District have been realized as follows:

1. K-6 Models: The expansion of K-6 in the 2024-25 fiscal year increased the Average Daily Membership (ADM) by 182.73, or approximately \$934,000 in additional revenue within this specific grade band. In 2025-26 fiscal year, although the cohort has decrease in size, the ADM for 6th graders was approximately 3.3% greater than before the model was implemented in FY2024.
 2. The Desegregation Zero-Based Budget Process implemented in Spring 2025 yielded \$2.9 million in cost reductions across all Desegregation funded programs and activities for the 2025-26 fiscal year.
 3. The operating expenditures in central departments produced approximately \$2.1 million in permanent reductions in the 2025-26 fiscal year and beyond.
 4. The position reductions for the 2025-26 fiscal year and the hiring freeze through June 30, 2025, achieved \$7 million in permanent personnel cost reductions across the district.
 5. The reapportionment review from the 2024-25 fiscal year State Aid and property tax revenues determined that approximately \$16.1 million was not properly posted to the Maintenance & Operations Fund, which was corrected in the 2025-26 fiscal year.
-

Short-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

1. External Enrollment Consultant: Ongoing through June 30, 2026
2. Media Campaign: Ongoing through June 30, 2026
3. Building Renewal Grant Application: Ongoing through June 30, 2026
4. Implementation of 15% Maintenance & Operations Override: July 1, 2026
5. \$7 Million District Additional Assistance from M&O to Capital: July 1, 2026
6. Capital Improvement Plan: January 31, 2026

Actual financial impact of implemented short-term actions

1. External Enrollment Consultant: The 2024-25 fiscal year was the first year that the District engaged with a consultant to support enrollment efforts. In the first year, the District reengaged students to clear approximately \$365,000 in additional revenues. For Phase 1 of the 2025-26 fiscal year enrollment campaign, the consultant was able to engage 251 students who were not enrolled as of the first day of schools, which resulted in approximately \$2.7 million in revenues that were recouped. This campaign is ongoing.
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Long-term actions

Populate the field below with planned actions described above that will be taken **within the next 4 to 12 months** as well as the **target completion date**.

1. FY27 Central Department Cuts: July 1, 2026
2. Additional Operations Reductions: June 30, 2027
3. Energy Efficiency Optimization: Ongoing through June 30, 2027
4. \$3 Million District Additional Assistance from M&O to Capital: July 1, 2027

Actual financial impact of implemented long-term actions

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