



A REPORT
TO THE
ARIZONA LEGISLATURE

Division of School Audits

Special Study

Arizona Public School Districts' Dollars Spent in the Classroom Fiscal Year 2007

FEBRUARY • 2008



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

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February 28, 2008

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

I am pleased to present our report, *Arizona Public School Districts' Dollars Spent in the Classroom, Fiscal Year 2007*. We prepared this report in response to the Arizona Revised Statutes §41-1279.03 requirement to determine the percentage of every dollar Arizona school districts spend in the classroom. This report also describes how districts used Classroom Site Fund monies resulting from Proposition 301. To provide a quick summary for your convenience, I am also including a copy of the Report Highlights.

In fiscal year 2007, Arizona's state-wide percentage of dollars spent in the classroom was 57.9 percent, which continues a 3-year downward trend and keeps Arizona's percentage more than 3 percentage points behind the national average of 61.2 percent reported by the National Center for Education Statistics. Arizona's classroom dollar percentage could have been higher. If districts had continued spending their resources as they did in fiscal year 2001, the additional Proposition 301 and Indian Gaming monies could have raised the State's classroom dollar percentage to 59.7 percent. However, Arizona school districts' spending patterns over the past few years indicate that districts are probably using Proposition 301 monies to supplant other district monies, and therefore the gap between Arizona districts' "actual" and "potential" classroom dollar percentages continues to grow.

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

Districts continued to use Proposition 301 monies almost solely for instructional staff salaries and benefits. Based on district-reported data, 11 percent of teacher salary amounts, on average, were attributable to Proposition 301 monies.

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

This report will be released to the public on February 29, 2008.

Sincerely,

Debbie Davenport
Auditor General

SUMMARY

The Office of the Auditor General has conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom during fiscal year 2007. In addition, this report summarizes how districts reported spending their Classroom Site Fund monies resulting from Proposition 301, the education sales tax approved by voters in November 2000. This analysis was conducted pursuant to Arizona Revised Statutes (A.R.S.) §41-1279.03, which requires the Auditor General to monitor the percentage of each dollar spent in the classroom and conduct performance audits of school districts. This is the seventh year the Office of the Auditor General has conducted this analysis.

The definition of classroom dollars used in this report is the same definition developed by the U.S. Department of Education's National Center for Education Statistics (NCES) for "instruction." This definition, as described in Table 1 (see page 2), includes current expenditures for classroom personnel, instructional supplies, instructional aids, certain tuition payments, field trips, athletics, and co-curricular activities. This definition has been applied by NCES for a number of years and provides a basis for comparing Arizona's results with other states, the national average, and Arizona's past performance.

Dollars in the classroom (see pages 7 through 23)

In fiscal year 2007, Arizona's state-wide percentage of dollars spent in the classroom was 57.9 percent, which continues a 3-year downward trend. Despite the infusion over the past 6 years of significant state-provided resources largely directed to the classroom, Arizona's classroom dollar percentage continues to lag more than 3 percentage points behind the national average of 61.2 percent.

Arizona school districts' spending patterns over the past few years indicate districts are likely using Proposition 301 monies to supplant other district monies. As a result, new monies have not increased Arizona's classroom dollar percentage and the percentage is lower than it could have been. If districts had not shifted spending patterns, the additional Proposition 301 and Indian gaming monies would have

raised the state-wide average to 59.7 percent. However, most districts now spend proportionately less of their other monies in the classroom than they did before Proposition 301.

Excluding certain special-purpose districts, classroom dollar percentages for individual districts ranged from 22.8 to 78.8 percent, and over half of the districts analyzed spent a smaller percentage of dollars in the classroom in 2007 than they did in 2006. The ten largest school districts in the State, each with more than 20,000 students, accounted for 40 percent of Arizona school districts' total current spending, and therefore, significantly impacted the State's classroom dollar percentage. Between fiscal years 2006 and 2007, this group's classroom dollar percentage decreased by 0.4 percentage point, identical to the state-wide decrease.

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

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

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

Districts' uses of Proposition 301 monies (see pages 25 through 32)

Districts spent more than \$351 million from their Classroom Site Funds during fiscal year 2007, and they continued to use these monies primarily to increase the salaries of certified teachers and other employees they have defined as eligible, such as librarians, counselors, and speech pathologists. These eligible employees received amounts ranging from \$924 to \$8,203. Districts continued to address various performance goals through their Proposition 301 performance pay plans. However, only 47 districts' plans addressed all or most of the performance measurement elements specified in statute. In addition, districts reported spending Proposition 301 menu monies primarily on teacher compensation, followed by class size reduction, teacher development, and AIMS intervention.

Since Proposition 301's inception, the state-wide average teacher salary has increased by \$6,657, with most of this increase occurring in fiscal year 2006 when the average teacher salary increased by over \$3,800. However, in fiscal year 2007, the average state-wide teacher salary increased by only \$866. This amount could have been higher, but as noted in Chapter 1 of this report, districts are likely using Proposition 301 monies to supplant other district monies, although statute prohibits this practice. Further, school district performance audits conducted during fiscal year 2007 identified two districts that used Proposition 301 monies to supplant other district monies.

Despite supplanting issues, districts spent Proposition 301 monies primarily for allowable purposes. A.R.S. §15-977 requires menu monies directed toward class size reduction, AIMS intervention, and dropout prevention to be spent only on instruction. In prior fiscal years, some districts have spent menu monies for expenditures not allowed by law, such as expenditures for security personnel for dropout prevention programs and transportation to AIMS intervention activities. However, in fiscal year 2007, auditors did not identify any misuses of Proposition 301 menu monies.

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

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

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INTRODUCTION & BACKGROUND

The Office of the Auditor General has, for the seventh consecutive year, conducted an analysis of Arizona school districts' percentage of dollars spent in the classroom. This analysis was conducted pursuant to Arizona Revised Statutes §41-1279.03, which requires the Auditor General to monitor the percentage of each dollar spent in the classroom and conduct performance audits of Arizona's school districts.

This report also summarizes how school districts have reported using their Proposition 301 funding. In November 2000, voters approved Proposition 301. This proposition raised the state sales tax by six-tenths of 1 percent for 20 years to fund educational programs. A portion of the monies raised through this additional tax are distributed to districts through a centralized state fund called the Classroom Site Fund, and the monies spent are referred to as 'Classroom Site Fund expenditures'. School districts may use this funding only for specified purposes, primarily increasing teacher pay.

Classroom dollars: definition and benchmarks

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

NCES compiles its analysis using expenditure data provided by all states, including Arizona. This information is currently available only through fiscal year 2005. Unless otherwise noted, the expenditure data for Arizona in this report is based on auditor compilations using districts' Annual Financial Reports and accounting data, which is available through fiscal year 2007.

Table 1: Classroom Dollars Definition

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

The amount a district spends for classroom purposes is compared to the total amount a district spends for its day-to-day operations, or total current expenditures. A district's total current expenditures includes both classroom and nonclassroom expenses as described below.

Classroom Dollars

Classroom personnel—Teachers, teachers' aides, substitute teachers, graders, and guest lecturers

General instructional supplies—Paper, pencils, crayons, etc.

Instructional aids—Textbooks, workbooks, software, films, etc.

Activities—Field trips, athletics, and co-curricular activities such as choir and band

Tuition—Paid to out-of-state and private institutions

Nonclassroom Dollars

Administration—Superintendents, principals, business managers, clerical, and other staff who perform accounting, payroll, purchasing, warehousing, printing, human resource activities, and information technology services

Plant operation and maintenance—Heating and cooling, equipment repair, groundskeeping, and security

Food service—Costs of preparing and serving meals and snacks

Transportation—Costs of transporting students to and from school and school activities

Instructional staff support services—Librarians, teacher training, and curriculum development

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

Are any expenditures excluded from the calculation?

Yes, the calculation excludes monies spent for debt repayment; capital outlay, such as purchasing land, buildings, and equipment; and programs outside the scope of K-12 education, such as adult education and community services.

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

Scope and methodology

To analyze the most current expenditure and budget data available for Arizona's districts, auditors obtained fiscal year 2007 district Annual Financial Reports (AFRs) and budgets from the Arizona Department of Education. In addition, all of the State's 239 school districts provided auditors with fiscal year 2007 summary accounting data, and 223 school districts submitted summaries of their Classroom Site Fund expenditures and program results. This report presents analyses of available data; therefore, the information used to prepare this report was not subjected to all the tests and confirmations that would be performed during an audit. However, the information in this report was subject to certain quality control procedures to ensure its reasonableness. For example, instead of auditing the AFRs, budgets, and summary accounting data to the underlying district records, auditors performed analytical procedures using the financial data and Classroom Site Fund narratives of program results and interviewed school district officials about significant anomalies or variances. Auditors corrected any data errors identified during this analysis prior to calculating classroom dollar percentages and analyzing Classroom Site Fund expenditures.

Other information related to the analysis was obtained from the Arizona Department of Education, such as school district staffing levels and average daily membership counts. In addition, auditors obtained state-level data, including staffing, enrollment, and financial data, from NCES and poverty rates from the U.S. Census Bureau. These other types of data were also compared against published reports for reasonableness and accuracy, but the various source records were not audited.

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

Auditors made certain adjustments to the Arizona district-level data that affected the average daily membership (ADM) counts for districts that did not offer free all-day kindergarten. This adjustment, which was needed to improve ADM comparability between districts, was made at the school level based on district responses to a survey. Auditors also made certain adjustments that affected the classroom dollar results reported for the State's ten joint technological education districts. These districts typically pass through more than 50 percent of their available funding to their member school districts. Thus, to avoid the same expenditures being counted for both the joint technological education districts and their member districts, classroom dollar percentages were calculated using only direct expenditures.

When calculating the State's classroom dollar percentage, auditors included all of the State's 239 districts. However, when analyzing factors affecting classroom dollar percentages and the use of Proposition 301 monies, auditors excluded some districts. The analysis of the percentage of dollars spent in the classroom for Arizona districts was based on 154 districts, and the analysis of Proposition 301 information was based on 223 districts. The specific exclusions and reasons for exclusions include:

- When calculating individual district classroom dollar percentages, transporting districts were excluded. These districts transport all their students to other districts and, therefore, do not have classroom expenditures. These districts are listed in Table 2 on page 5.
- When analyzing factors that affect the percentages, accommodation districts and joint technological education districts were also excluded. These two district types are unique in operation and few in number, and would, thereby, distort the analysis of factors generally affecting other district types. These districts are listed separately in Table 6 on page 23.
- The 54 smallest districts, those with fewer than 200 students, were also excluded from auditor analysis of factors affecting the percentages. These districts' operations and spending patterns are highly variable and do not contribute to identifying state-wide trends and norms. These districts are listed in Table 6 on pages 22 and 23 as "Very Small."
- Only 223 districts received Proposition 301 monies for fiscal year 2007. The 16 districts not receiving fiscal year 2007 Proposition 301 monies included the 10 transporting districts and 6 of the 10 joint technological education districts. These districts are listed in Table 2 on page 5.

The Auditor General and her staff express their appreciation to the Superintendent of Public Instruction, the staff of the Arizona Department of Education, and the staffs of the Arizona public school districts for their cooperation and assistance during this study.

Table 2: Districts Excluded from Analysis as Noted
Fiscal Year 2007

Districts by Type	Excluded from Analysis of	
	State-wide Classroom Dollar Factors	Proposition 301
Accommodation Districts (11) Listed on page 23	●	
Joint Technological Education Districts (10)		
Central Arizona Valley Institute of Technology	●	
Cobre Valley Institute of Technology	●	●
Cochise Technology District	●	●
Coconino Association for Vocation, Industry, and Technology	●	●
East Valley Institute of Technology	●	
Gila Institute for Technology	●	
Northeast Arizona Technological Institute of Vocational Education	●	●
Northern Arizona Vocational Institute of Technology	●	
Valley Academy for Career and Technology Education	●	●
Western Maricopa Education Center	●	●
Very Small Districts (54) Listed on pages 22 and 23	●	
Transporting Districts (10)		
Champie Elementary	●	●
Chevelon Butte Elementary	●	●
Eagle Elementary	●	●
Empire Elementary	●	●
Forrest Elementary	●	●
Klondyke Elementary	●	●
Redington Elementary	●	●
Rucker Elementary	●	●
Walnut Grove Elementary	●	●
Williamson Valley Elementary	●	●

Source: Auditor General staff analysis of fiscal year 2007 summary accounting data provided by individual school districts, School District Annual Financial Reports, school district type, and Proposition 301 revenue distribution data provided by the Arizona Department of Education.

CHAPTER 1

Dollars in the classroom

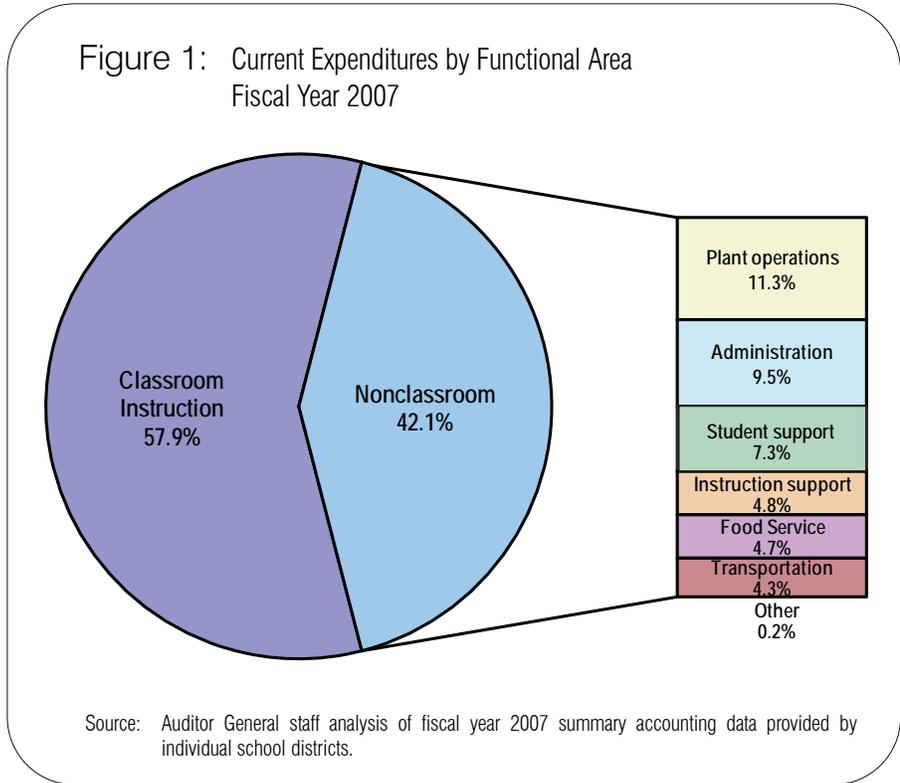
In fiscal year 2007, Arizona's state-wide percentage of dollars spent in the classroom decreased for the third consecutive year to 57.9 percent and remains more than 3 percentage points below the national average. More than half of the school districts' classroom dollar percentages declined in 2007, but the biggest impact on the state average came from declines in the very large districts. With the infusion over the past several years of significant state-provided resources largely directed to the classroom, the State's classroom dollar percentage could have been higher, but districts appear to be using these monies to supplant other monies, a violation of A.R.S. §15-977(A).

Compared to national averages, Arizona school districts spent a greater percentage of their resources for student support services, plant operations, and food services, and spent a lower percentage for administration. Within Arizona, larger district size is associated with higher classroom dollar percentages, while higher plant operations, administration, transportation, and student support costs are the costs most closely associated with lower classroom dollar percentages. Higher overall per-pupil spending does not equate to higher classroom dollar percentages in Arizona districts.

Arizona's classroom dollar percentage has declined 3 straight years and remains lower than the national average

As shown in Figure 1 (see page 8), in fiscal year 2007, Arizona school districts cumulatively spent 57.9 cents of each dollar in their classrooms, which is 0.4 percentage points lower than the prior year and continues a 3-year downward trend. Districts spent slightly higher percentages on plant operations, administration, student support services, and student transportation than in fiscal year 2006.

Based on data available from the U.S. Department of Education’s National Center for Education Statistics (NCES), the most recent national average for spending on instruction is 61.2 percent. Further, the national average has remained between 61 and 62 percent for more than 10 years.



Most districts’ classroom dollar percentages declined in 2007, but the state average was most affected by declines in very large districts

During fiscal year 2007, as the lower state-wide average reflects, more than half of Arizona school districts spent a smaller percentage in the classroom than they did the previous year. Most declining percentage districts were small districts, which are more affected by expenditure shifts. The state-wide classroom dollar percentage, however, is more significantly affected by ten very large districts as their expenditures account for 40 percent of Arizona’s school districts’ total current spending.

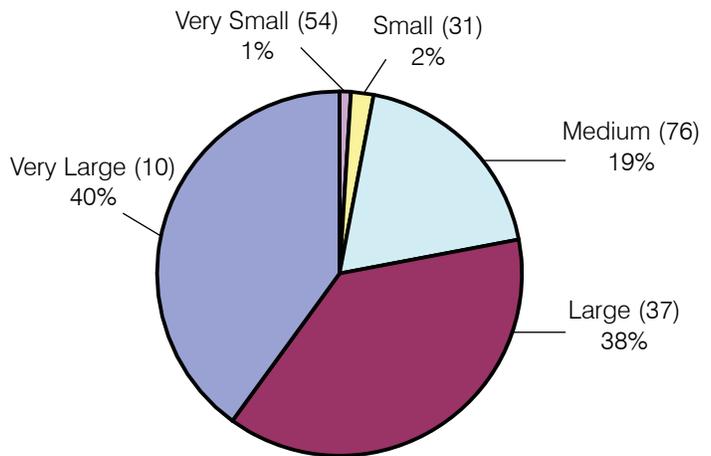
Over half of the districts analyzed spent a smaller percentage of dollars in the classroom—Although many districts continued to spend a similar percentage of dollars in the classroom as they did the previous fiscal year,

91 districts (59 percent of those analyzed) had lower classroom dollar percentages in fiscal year 2007. Districts with declining classroom dollar percentages typically increased their administrative costs and student support services, while districts increasing their classroom dollar percentages typically spent a smaller proportion on administrative costs and plant costs. The districts that changed the most were, on average, much smaller than districts with more stable classroom dollar percentages. Relatively small changes in yearly expenditures and one-time costs can have a significant impact on smaller districts' classroom dollar percentages.

A very small district in Yuma County spent almost 11 percentage points less in the classroom primarily because of increased administrative costs related to a lawsuit.

Decreases in 7 very large districts significantly impact State's classroom dollar percentage—As shown in Figure 2 below, the ten very large districts—those with more than 20,000 students—account for 40 percent of Arizona school districts' total current expenditures. Therefore, changes in this group's classroom dollar percentage significantly impact the state-wide classroom dollar percentage. Seven of these districts experienced decreases in their classroom dollars percentages between fiscal years 2006 and 2007, ranging from 0.3 to 1.7 percentage points. As a group, the very large districts classroom dollar percentage average decreased by 0.4 percentage points, which is identical to the State's decrease .

Figure 2: Percentage of State-wide District Spending by Size Groups (With Number of Districts within each Group shown) Fiscal Year 2007



Source: Auditor General staff analysis of fiscal year 2007 summary accounting data provided by individual school districts.

Apparent supplanting by school districts has negatively impacted Arizona's classroom dollar percentage

Arizona school district spending patterns over the past several years indicate districts are likely using Proposition 301 monies to supplant other district monies, which is a violation of Arizona Revised Statutes §15-977(A). Supplanting means that districts have used the Proposition 301 monies to replace, rather than add to, monies being spent in the classroom. Districts do not appear to be using their non-classroom site fund monies to support instructional activities at the same level of effort they did prior to receiving Proposition 301 monies.

New monies have not increased Arizona’s classroom spending percentage—Beginning in fiscal year 2002, Proposition 301 provided new monies for Arizona school districts. As described more specifically in Chapter 2, these monies are largely restricted to being used for classroom purposes, such as increasing teacher pay. In fiscal year 2001, before Proposition 301 monies were available, the state-wide classroom dollar percentage for Arizona districts was 57.7 percent. With the first infusion of \$251 million of Proposition 301 monies in fiscal year 2002, state-wide classroom spending increased to 58.2 percent. As shown in Table 3 below, besides Proposition 301 monies, other resources largely directed toward classroom spending include Indian gaming revenues, which began in fiscal year 2004. However, after reaching a peak of 58.6 percent in fiscal years 2003 and 2004, the average classroom dollar percentage has dropped in each of the past 3 years. In fact, after a 6-year total increase of approximately \$1.7 billion of Proposition 301 monies and increases in other funding such as Indian gaming revenues, shown yearly in Table 3 below, the state classroom dollar percentage has increased by only 0.2 of a percentage point and still lags more than 3 points behind the national average.

Table 3: Total Current Expenditures, Certain Revenues, and Classroom Dollars Percentages
Fiscal Years 2001 through 2007
In Millions
(Unaudited)

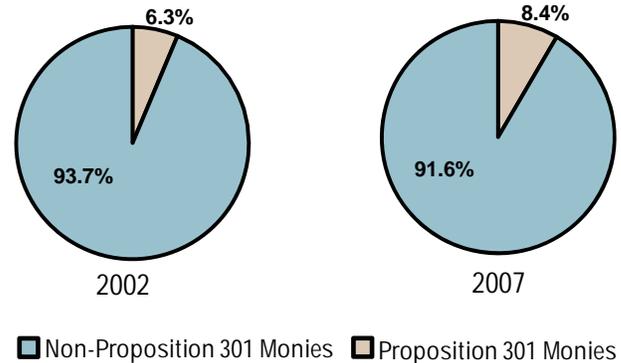
	2001	2002	2003	2004	2005	2006	2007
Total Current Expenditures	\$3,921	\$4,707	\$5,073	\$5,403	\$5,762	\$6,295	\$6,775
Classroom Site Fund (Proposition 301 Monies)	\$ 0	\$ 251	\$ 236	\$ 232	\$ 249	\$ 341	\$ 366
Instructional Improvement Fund (Indian gaming monies)	\$ 0	\$ 0	\$ 0	\$ 9	\$ 18	\$ 21	\$ 26
Classroom Dollar percentage	57.7%	58.2%	58.6%	58.6%	58.4%	58.3%	57.9%

Source: Auditor General staff analysis of fiscal year 2007 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and previous reports on *Arizona Public School Districts' Dollars Spent in the Classroom*, from fiscal years 2001 through 2005.

Proposition 301 monies supplanting other monies in the classroom—Analysis of school district financial data shows that Proposition 301 monies constitute a larger percentage of classroom spending now than they did 5 years ago. Figure 3 (see page 11) shows that Proposition 301 monies accounted for 6.3 percent of school districts’ instructional expenditures in fiscal year 2002. By 2007, this percentage had grown over 2 percentage points to 8.4 percent.

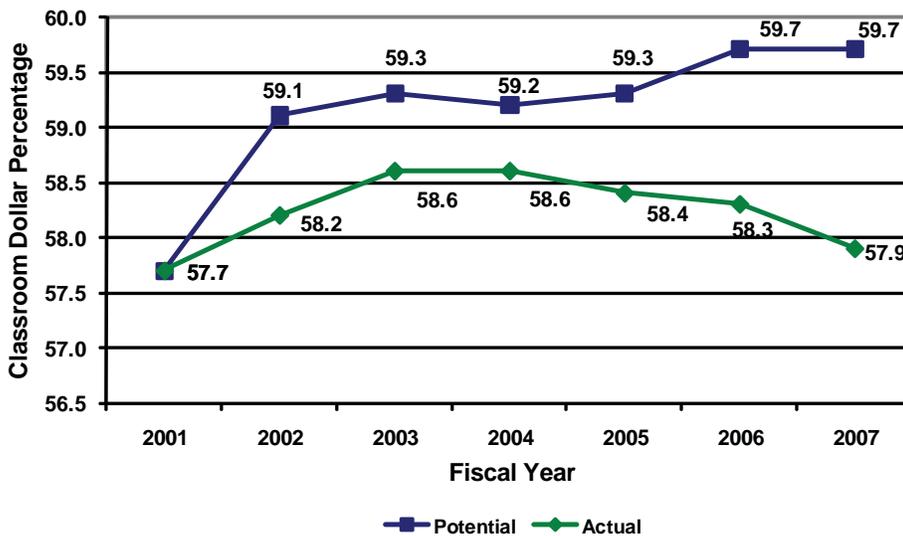
The shrinking percentage of non-Proposition 301 monies spent in the classroom means that the gap between Arizona districts' "actual" and "potential" classroom dollar percentages continues to grow. As shown in Figure 4 below, if districts had spent their fiscal year 2007 non-Proposition 301 monies in the same proportions as they did in fiscal year 2001, the additional Proposition 301 and Indian gaming revenues would have raised the state-wide average to 59.7 percent. However, because most districts have spent proportionately less of their other monies in the classroom since fiscal year 2004, the gap between the State's "potential" and "actual" classroom dollar percentages has widened. Specifically, for fiscal year 2007, Arizona school districts' total current expenditures increased by more than \$479 million over the prior year, but less than \$258 million, or only 53.7 percent, of these expenditures were used for classroom purposes.

Figure 3: Total Current Instructional Expenditures Fiscal Years 2002 and 2007



Source: Auditor General staff analysis of fiscal year 2007 School District Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts, and past Classroom Dollars reports.

Figure 4: Arizona Actual and Potential Classroom Dollar Percentages Fiscal Years 2002 through 2007



Source: Auditor General staff analysis of fiscal year 2007 School District Annual Financial Reports provided by the Arizona Department of Education, summary accounting data provided by individual school districts, and previous reports on *Arizona Public School Districts' Dollars Spent in the Classroom*, fiscal years 2001 through 2006.

Had districts received less funding in recent years or had the State's average for teachers' years of experience decreased significantly, this widening gap might be less questionable. However, between 2001 and 2007, district current expenditures per student increased 30 percent, or 11.3 percent adjusted for inflation even without including expenditures of Proposition 301 monies, and the average for teachers' years of experience has remained relatively stable. Had districts continued to increase teachers' salaries with non-Proposition 301 monies since 2001 at the same rate they did prior to 2001, the fiscal year 2007 average teacher salary would have been more than \$2,300 higher.¹

Arizona trails national average because of spending for plant operation, food service, and student support

When analyzing why Arizona's classroom dollar percentage is below the national average, three expenditure areas stand out. As shown in Table 4 below, compared with the national average, Arizona districts spent a larger portion of their current dollars on student support services, plant operation and maintenance, and food service. However, on a positive note, Arizona districts spent much less on administration. The most recent national data from NCES used for the analysis is from fiscal year 2005.

Table 4: Comparison of Arizona Districts' Spending To National Average, by Functional Area Fiscal Years 2005 and 2007

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

Source: Auditor General staff analysis of fiscal years 2005 and 2007 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts, and NCES "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2004-05," April 2007.

¹ Auditors applied the average Arizona teacher-pay increase between fiscal years 1995 to 2001 as reported by the American Federation of Teachers to the average teachers' salary in fiscal year 2001—the year before Proposition 301 monies became available.

Student support services—Arizona school districts allocated a significantly larger percentage of their dollars to student support services than the national average. This category includes costs such as counselors and health-related services. Student support services accounted for 7.3 percent of Arizona school districts' fiscal year 2007 current expenditures, 2.1 percentage points higher than the national average. The proportion spent on student support service salaries accounted for more than half of this difference. According to the data collected as part of NCES' Schools and Staffing Surveys, Arizona averages 104 students for each full-time equivalent (FTE) student support service employee, while the national average is 160 students. The difference may reflect higher staffing levels to address Arizona's higher percentage of at-risk students. According to census data, on average, 18.9 percent of Arizona's school-age children live in poverty, which is 1.9 percentage points higher than the national average of 17 percent.

Plant operation and maintenance costs—Arizona school districts continued to allocate a significantly larger percentage of their dollars to plant operation and maintenance costs than the national average. Plant costs include expenditures for the care and upkeep of buildings, grounds, and equipment; utilities; and security. For fiscal year 2007, this category accounted for 11.3 percent of current expenditures in Arizona school districts, which is 1.7 percentage points higher than the national average.

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

Food service—Arizona school districts also spent a larger percentage of their dollars for food service costs than the national average. Food service includes expenditures for preparing, delivering, and serving regular and incidental meals and snacks in connection with school activities. For fiscal year 2007, Arizona school districts spent, on average, 4.7 percent on food service, while the national average was 3.9 percent.

Arizona's higher food service percentage may be related to its higher-than-average eligibility for the National School Lunch Program.¹ As noted in the Auditor General's 2005 special study, *Arizona's Participation in the National School Lunch Program*, a greater proportion of Arizona students who are eligible for free or reduced-price meals typically eat school lunches. Serving more meals per pupil would increase the proportion being spent on food service costs. In fact, the seven states with similarly high percentages of students eligible for free or reduced-price meals spent 5.7 percent, on average, for food service, which is higher than Arizona's average.

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

Administrative costs—One area in which Arizona school districts, on a state-wide basis, spent a smaller percentage than the national average is administration. Administrative costs are those associated with a district's governing board, superintendent, and school principal offices, and its business and central support services. In fiscal year 2007, Arizona districts spent only 9.5 percent of their dollars on administration while the national average was 11 percent. The difference was attributable to lower expenditures in three areas—administrative salaries, administrative benefits, and purchased services. Each accounted for about one-third of the difference. The lower percentage spent on administration also may be due to Arizona administrators' serving more students. Arizona administrators serve 21 percent more students for each administrative full-time equivalent (FTE) employee than the national average. Arizona's proportion of administrative costs between district- and school-level was not significantly different than the national average.

Factors associated with higher or lower classroom spending among Arizona districts

When comparing school districts within Arizona, certain factors were associated with higher or lower classroom spending percentages. One factor, the number of students in a district, was positively related to dollars being spent in the classroom. That is, as district size increases, so does the classroom dollar percentage, on average. Conversely, cost factors identified in previous fiscal years continue to be associated with lower percentages. In fiscal year 2007, the factors with the strongest negative relationships are plant operation and maintenance, administration, student support services, and transportation costs. As these costs increase, the percentage of dollars spent in the classroom decreases, on average.

Larger district size associated with higher classroom dollar percentages—Generally, the more students a district has, the higher the percentage it spends in the classroom. As shown in Table 5 (see page 15) and as found in previous fiscal years' analyses, the classroom dollar percentage increases as the number of students in a district increases. In fact, as a group, only the ten very large districts have an average classroom dollar percentage above the State's average.

This increase in classroom dollar percentage may occur because larger districts can spread fixed noninstructional costs over more students, leaving additional dollars to spend in the classroom. For example, both large and small districts generally provide facilities such as gymnasiums for students. However, the large districts can spread the costs associated with operating these facilities over more students. In fact, small districts maintain about twice the square footage per student as large and very large districts, on average.

Table 5: Average Classroom Dollar Percentages of Districts Grouped by Size Fiscal Year 2007

District Size	Number of Districts	Number of Students	Average Classroom Dollar Percentage
Very Large	10	20,000 or more	60.4%
Large	37	5,000-19,999	57.5
Medium	76	600-4,999	54.9
Small	31	200-599	52.8
Very Small	54	Less than 200	53.0

Source: Auditor General staff analysis of fiscal year 2007 School District Annual Financial Reports and average daily membership information provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

Plant costs higher at districts with higher elevations, older buildings, high school campuses, or more square footage per pupil—On average, districts with the highest per-pupil plant costs spent \$1,646 per pupil, which was more than two and one-half times as much as the \$639 spent by the lowest per-pupil plant cost group. Analysis of the districts in the highest and lowest per-pupil plant groups showed these two groups continue to differ in a number of characteristics. Compared to districts in the lowest per-pupil cost group, those in the highest-cost group are:

- Located at higher elevations with colder temperatures**—The average elevation for high-cost districts was 4,121 feet, compared to the low-cost districts' average of 1,726 feet. The 61-degree average annual temperature for these high-cost districts was 9 degrees cooler than the low-cost districts' 70-degree average.
- Operating and maintaining older buildings**—High-cost districts' buildings were more than 6 years (39 percent) older, on average. For this comparison, each building's age was weighted by its proportion of the district's total square footage.
- Serving more high school students**—84 percent of the high-cost districts were high school or unified, whereas 55 percent of the low-cost districts were elementary. This is probably due to high schools' incurring costs for maintaining specialized facilities such as football fields, swimming pools, vocational classrooms, and science laboratories.
- Providing more building space per pupil**—On average, high-cost districts provided about 2.4 times more square footage per pupil (278 square feet) as the low-cost districts (116 square feet). State requirements for square footage

per pupil, established in 1999, range from 80 to 125 square feet, depending on school size and grades served.

Administrative costs higher at districts with fewer students, higher staffing, and more district-level staffing—On average, the districts with the highest per-pupil administrative costs spent \$1,661 per pupil, more than three times as much as the \$553 spent by the lowest per-pupil administrative cost group. Compared to those in the lowest per-pupil cost group, districts in the highest-cost group are:

- **Serving smaller student populations**—65 percent of the high-cost districts are small, serving between 200 and 599 students, while none of the low-cost districts are small.
- **Maintaining higher staffing levels**—On average, high-cost districts served only 40 students per administrative position, while the low-cost districts served 75 students per administrative position.¹
- **Staffing more district-level positions**—High-cost districts spent 67 percent of their administrative dollars at the district level and only 33 percent at the school level. In contrast, districts in the low-cost group spent 47 percent of their administrative dollars at the district level and 53 percent at the school level. School administration includes the principal's office and other school-level administrative services. District administration includes general administration, business support services, and central support services.

Two medium-sized districts located in eastern Arizona towns staffed their schools with a similar number of administrative staff. However, the high-cost district employed 34 administrative staff in the district office, while the low-cost district employed only 25 district-level administrative positions.

In a sample controlled for differences in district size, the low- and high-cost groups staffed schools with a similar number of administrative staff. However, the high-cost group had over 40 percent more administrative staff in the district office as the low-cost group, on average.

Student support costs higher at districts with more at-risk students or high school students—On average, the districts with the highest per-pupil student support service costs spent \$991 per pupil, which was more than three and a half times as much as the \$270 spent by the lowest per-pupil student support cost group. As with the other noninstructional areas, the groups with the highest and lowest per-pupil student support costs also differed in certain characteristics. Compared to districts in the lowest per-pupil cost group, those in the highest-cost group are:

- **Serving more at-risk students**—According to 2007 Census Bureau estimates, 34 percent of students in the high-cost districts live in poverty, compared to 20 percent of those in the low-cost districts. On a per-pupil basis, high-cost districts also spent more than five times as much in federal and state grant money on student support services than low-cost districts did. These grants

¹ Administrative positions are based on a "full-time equivalent" calculation.

include programs such as Title I for the disadvantaged and IDEA for children with disabilities, which are, at least in part, earmarked for student support-type activities.

- **Employing more guidance counselors and social workers to meet at-risk student needs**—The high-cost districts have more than three times the number of guidance counselors and social workers who together on average served 518 students each, while the low-cost districts' guidance counselors and social workers served 1,164 students each.
- **Serving more high school students**—71 percent of the high-cost districts were high school or unified, while 45 percent of the low-cost districts were elementary. The cost difference would be partly due to high schools' having more counselors who provide career and teen-related guidance to high school students.

Transportation costs higher at districts that transport more of their students or transport them farther—On average, districts with the highest per-pupil transportation costs spent \$798 per pupil, almost four and one-half times as much as the \$180 spent by the lowest per-pupil transportation cost group. As with other noninstructional costs, the groups with the highest and lowest per-pupil transportation costs also differed in certain characteristics. Compared to those in the lowest per-pupil cost group, districts in the highest-cost group are:

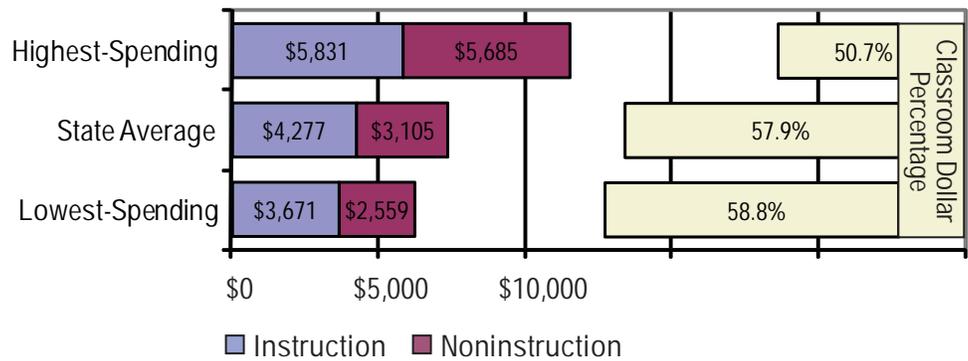
- **Transporting a higher percentage of student population**—The high-cost districts transport, on average, 85 percent of their student population, compared to 31 percent for low-cost districts.
- **Transporting students farther**—On average, the high-cost districts transport each rider 449 miles per year, over two and one-half times farther than the low-cost districts, which averaged 169 miles per year.

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

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

High-spending districts averaged a lower percentage of dollars in the classroom—As total current expenditures per pupil increase, the dollars per pupil spent in the classroom also increase, on average. However, the proportion of available resources being spent in the classroom decreases, on average. Figure 5 shows the average instruction and noninstruction per-pupil spending for the highest- and lowest-spending districts, compared to the state average. On average, the highest-spending districts spent \$2,160 more per pupil on instruction than the lowest-spending districts and \$1,554 more than the state average. However, on average, these highest-spending districts spent only 50.7 percent of available monies in the classroom compared to the 58.8 percent spent by the lowest-spending districts.

Figure 5: Instruction and Noninstruction Per-Pupil Spending by Lowest- and Highest-Spending Districts and State Average, With Average Classroom Dollar Percentages Fiscal Year 2007



Source: Auditor General staff analysis of fiscal year 2007 School District Annual Financial Reports and average daily membership information provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

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

- District location and student population outside of district control**—Highest-spending districts tend to be small, rural, and/or have declining student enrollment. About 58 percent of the highest-spending districts operate in rural locations, while only 16 percent of the lowest-spending districts are rural. One reason districts in rural areas may incur higher noninstructional costs is

because they tend to transport their riders longer distances, which is a factor associated with higher transportation costs. Also, 48 percent of the highest-spending districts are small, whereas none of the lowest-spending districts are small. Smaller districts have fewer students over which to spread their fixed costs. In addition, the highest-spending districts experienced a 4.1 percent decline in student population from fiscal year 2006, while the lowest-spending group experienced an 8.4 percent increase, on average. These year-to-year changes in student population, especially at small districts, can significantly affect per-pupil costs.

- **Inefficient operations within district control**—Inefficient operation of noninstructional areas, such as those that have been identified by the Auditor General's performance audits of individual school districts (see textbox), can result in higher expenditures outside the classroom, and thus, lower classroom dollar percentages. Prior audits have identified numerous types of inefficient operations, including high administrative staffing levels and salaries; poor controls over purchasing cards; not following proper bidding procedures, which likely resulted in higher costs; inefficient bus routes that resulted in low-bus capacity utilization; and maintaining excessive amounts of unneeded building space.
- **Additional revenue sources**—Higher-spending districts have more total revenues to spend. On average, districts with high per-pupil total expenditures receive more federal and state grants, federal impact aid, budget overrides, small school budget adjustments, or rapid decline budget adjustments than lower-spending districts. How these additional revenues are spent is within district control to varying degrees, depending on the revenue source.
 - *Federal and state grants*—Districts have less control over whether federal or state grants are spent in the classroom. For example, districts receiving Individuals with Disabilities Education Act (IDEA) federal grant monies are required to include professionals such as school psychologists and speech-language pathologists when conducting individual diagnostic examinations of children suspected of having a specific learning disability. On average, the highest-spending districts spent more than four times the amount per pupil from federal and state grants.

Examples of Performance Audit Recommendations

District staff should review and monitor:

- **Administrative staffing levels**—At district and schools to identify potential ways to reduce salary and benefit costs.
- **Administrative and performance pay contracts**—For specification of duties and performance goals, to prevent overpayment of salaries.
- **Fuel card usage**—To ensure appropriateness of fuel purchases.
- **Cost per mile, cost per rider, miles per rider, and bus capacity utilization**—To identify inefficiencies and reduce transportation costs.
- **Accuracy and sufficiency of documentation for reported transportation miles and riders**—To ensure appropriate funding levels.
- **Cost per square foot**—To identify and reduce high plant operations and maintenance costs.
- **Plant operations staffing levels**—To reduce long-term costs associated with one-time facility needs.

- *Budget capacity increases*—Districts have significant control over whether monies from statutorily authorized budget adjustments and federal impact aid are spent in the classroom. On average, the highest-spending districts increased their Maintenance and Operation Fund budget capacity by 14 percent through these revenue sources:
 - *Small school and rapid decline adjustments*—Twelve of the highest-spending districts increased their budget capacity through rapid decline adjustments, which are given to schools that experience a decline in student count of at least 5 percent. Four did so through small school adjustments, which are allowed for districts with 125 or fewer students in grades K-8, or with 100 or fewer students in grades 9 through 12. In contrast, none of the lowest-spending districts were eligible for these increases.
 - *Federal impact aid*¹—Seventeen of the highest-spending districts received federal impact aid, compared to only 5 in the lowest spending group. In the highest-spending group, most of the federal impact aid went to districts serving students living on reservations. Reservation districts spent over \$13,000 per pupil, on average, which was the highest in the State.² Similar to other high-spending districts, most of their expenditures are in noninstructional areas, resulting in an average classroom dollar percentage of 48.5 percent.

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

Individual district percentages

Table 6 (see pages 21 through 23) lists the fiscal year 2007 classroom dollar percentages for each of the 208 districts grouped by size, 11 accommodation districts, and 10 joint technological education districts. For further information, see the attached Appendix, which provides alphabetically organized, one-page summaries for each district. Along with other information, these pages show each district's comparative classroom dollar ranking from 1 (highest) to 229 (lowest).

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

² This amount is based on the 154 districts included in analysis and excludes the very small districts, which tend to have the highest per-pupil spending.

Table 6: Districts Grouped by Size (Average Daily Membership) and Ranked by Percentage of Dollars Spent in the Classroom¹ Fiscal Year 2007

Very Large (20,000+)	Average = 60.4%	Large (Concl'd)	
Chandler Unified School District	63.2%	Sierra Vista Unified School District	55.5%
Gilbert Unified School District	63.0%	Tempe Elementary School District	55.4%
Paradise Valley Unified School District	62.4%	Nogales Unified School District	55.0%
Mesa Unified School District	62.1%	Kingman Unified School District	54.9%
Scottsdale Unified School District	61.3%	Casa Grande Elementary School District	54.0%
Deer Valley Unified School District	60.5%	Phoenix Elementary School District	54.0%
Washington Elementary School District	60.3%	Agua Fria Union High School District	53.8%
Peoria Unified School District	59.6%	Creighton Elementary School District	53.3%
Phoenix Union High School District	57.1%	Yuma Elementary School District	51.9%
Tucson Unified School District	54.3%		
		Medium (600-4,999)	Average = 54.9%
Large (5,000-19,999)	Average = 57.5%	Whiteriver Unified School District	67.2%
Kyrene Elementary School District	63.5%	Buckeye Elementary School District	63.0%
Prescott Unified School District	62.3%	Liberty Elementary School District	62.9%
Cartwright Elementary School District	62.2%	Mingus Union High School District	62.4%
Humboldt Unified School District	61.8%	Thatcher Unified School District	61.6%
Alhambra Elementary School District	61.2%	Pima Unified School District	60.9%
Lake Havasu Unified School District	61.2%	Fowler Elementary School District	60.4%
Avondale Elementary School District	60.3%	Colorado River Union High School District	60.4%
Tempe Union High School District	59.7%	Willcox Unified School District	60.2%
Glendale Union High School District	59.5%	Queen Creek Unified School District	60.0%
Vail Unified School District	59.3%	Safford Unified School District	60.0%
Marana Unified School District	59.1%	Bullhead City Elementary School District	60.0%
Flowing Wells Unified School District	59.0%	Blue Ridge Unified School District	59.8%
Dysart Unified School District	58.9%	Douglas Unified School District	59.5%
Roosevelt Elementary School District	58.6%	Snowflake Unified School District	59.4%
Flagstaff Unified School District	58.5%	Chino Valley Unified District	59.3%
Litchfield Elementary School District	58.0%	Mohave Valley Elementary School District	59.3%
Higley Unified School District	57.7%	J. O. Combs Elementary School District	59.1%
Tolleson Union High School District	57.3%	Toltec Elementary School District	59.0%
Sunnyside Unified School District	57.0%	Madison Elementary School District	58.4%
Amphitheater Unified School District	56.8%	Fountain Hills Unified School District	57.9%
Glendale Elementary School District	56.8%	Catalina Foothills Unified School District	57.9%
Yuma Union High School District	56.5%	Santa Cruz Valley Unified School District	57.4%
Isaac Elementary School District	56.3%	Balsz Elementary School District	57.2%
Pendergast Elementary School District	56.2%	Wickenburg Unified School District	57.2%
Florence Unified School District	56.1%	Globe Unified School District	57.0%
Apache Junction Unified School District	55.8%	Payson Unified School District	57.0%
Crane Elementary School District	55.8%	Morenci Unified School District	56.9%
Cave Creek Unified School District	55.5%	Benson Unified School District	56.9%

¹ Accommodation and Joint Technological Education Districts are grouped separately.

Table 6 (Cont'd)

Medium (Concl'd)		Small (200-599)	Average = 52.8%
Littleton Elementary School District	56.8%	Beaver Creek Elementary School District	65.6%
Holbrook Unified School District	56.7%	Naco Elementary School District	63.0%
Tanque Verde Unified School District	56.7%	Wellton Elementary School District	59.9%
Williams Unified School District	56.5%	Clarkdale-Jerome Elementary School District	59.1%
Coolidge Unified School District	55.7%	St. David Unified School District	58.6%
Wilson Elementary School District	55.6%	Ray Unified School District	57.5%
Buckeye Union High School District	55.6%	Arlington Elementary School District	57.4%
Union Elementary School District	55.6%	Ajo Unified School District	56.7%
Palominas Elementary School District	55.5%	Continental Elementary School District	56.2%
Camp Verde Unified School District	55.4%	Duncan Unified School District	55.9%
Maricopa Unified School District	55.2%	Littlefield Unified School District	55.4%
Show Low Unified School District	55.0%	Ft. Thomas Unified School District	55.3%
Parker Unified School District	54.9%	Fredonia-Moccasin Unified School District	53.6%
Mammoth-San Manuel Unified School District	54.9%	Ash Fork Joint Unified School District	53.2%
Sahuarita Unified School District	54.9%	Sacaton Elementary School District	52.9%
Sedona-Oak Creek Joint Unified School District	54.9%	Picacho Elementary School District	52.3%
Tolleson Elementary School District	54.9%	Superior Unified School District	52.2%
San Carlos Unified School District	54.3%	Palo Verde Elementary School District	51.4%
Winslow Unified School District	54.3%	Joseph City Unified School District	50.9%
Round Valley Unified School District	54.2%	Hayden-Winkelman Unified School District	50.7%
Saddle Mountain Unified School District	53.6%	Quartzsite Elementary School District	50.7%
Laveen Elementary School District	53.6%	Oracle Elementary School District	50.2%
Miami Unified School District	53.5%	Mayer Unified School District	49.8%
Casa Grande Union High School District	53.5%	Bagdad Unified School District	48.8%
Nadaburg Elementary School District	53.4%	Grand Canyon Unified School District	48.1%
Cottonwood-Oak Creek Elementary School District	53.4%	Heber-Overgaard Unified School District	47.7%
St. Johns Unified School District	53.3%	Santa Cruz Valley Union High School District	47.6%
Page Unified School District	53.1%	Gila Bend Unified School District	45.6%
Window Rock Unified School District	52.4%	Cedar Unified School District	44.8%
Eloy Elementary School District	52.4%	Antelope Union High School District	43.7%
Murphy Elementary School District	51.8%	Colorado City Unified School District	41.3%
Sanders Unified School District	50.8%		
Somerton Elementary School District	50.6%	Very Small (1-199)	Average = 53.0%
Gadsden Elementary School District	50.5%	Blue Elementary School District	78.8%
Riverside Elementary School District	50.2%	Valentine Elementary School District	77.3%
Bisbee Unified School District	49.7%	Hillside Elementary School District	68.9%
Osborn Elementary School District	49.0%	Sonoita Elementary School District	68.5%
Chinle Unified School District	48.3%	Yucca Elementary School District	68.2%
Tombstone Unified School District	47.7%	Crown King Elementary School District	65.6%
Altar Valley Elementary School District	46.5%	Mcnary Elementary School District	64.9%
Ganado Unified School District	46.0%	Double Adobe Elementary School District	62.4%
Kayenta Unified School District	45.3%	Owens-Whitney Elementary School District	61.4%
Indian Oasis-Baboquivari Unified School District	45.2%	Bonita Elementary School District	60.5%
Tuba City Unified School District	44.8%	San Simon Unified School District	58.3%
Stanfield Elementary School District	44.6%	Aguila Elementary School District	57.9%
Pinon Unified School District	40.7%	Cochise Elementary School District	57.2%
Red Mesa Unified School District	40.4%		

Table 6 (Concl'd)

Very Small (Cont'd)

Santa Cruz Elementary School District	56.8%
Bowie Unified School District	56.4%
Topock Elementary School District	56.2%
Congress Elementary School District	56.0%
Solomon Elementary School District	55.3%
Sentinel Elementary School District	55.2%
Patagonia Elementary School District	55.0%
Apache Elementary School District	54.6%
Bouse Elementary School District	54.4%
Pearce Elementary School District	54.4%
Red Rock Elementary School District	54.3%
McNeal Elementary School District	54.0%
Pomerene Elementary School District	53.9%
Skull Valley Elementary School District	53.6%
Seligman Unified School District	53.5%
Young Elementary School District	53.0%
Elfrida Elementary School District	53.0%
Tonto Basin Elementary School District	53.0%
Kirkland Elementary School District	52.9%
San Fernando Elementary School District	52.1%
Yarnell Elementary School District	51.6%
Canon Elementary School District	51.3%
Alpine Elementary School District	51.0%
Valley Union High School District	49.9%
Wenden Elementary School District	48.9%
Pine Strawberry Elementary School District	48.5%
Paloma Elementary School District	48.4%
Clifton Unified School District	48.2%
Morristown Elementary School District	47.8%
Maine Consolidated School District	46.8%
Mohawk Valley Elementary School District	45.6%
Bicentennial Union High School District	45.4%
Hyder Elementary School District	44.9%
Ash Creek Elementary School District	42.5%
Patagonia Union High School District	42.2%
Hackberry Elementary School District	41.9%
Concho Elementary School District	40.8%
Vernon Elementary School District	39.8%
Salome Consolidated Elementary School District	39.3%

Very Small (Concl'd)

Mobile Elementary School District	26.9%
Peach Springs Unified School District	22.8%

Accommodation Average = 46.8%

Pima Accommodation School District	66.9%
Ft. Huachuca Accommodation School District	60.9%
Gila County Regional School District	55.2%
Mary C. O'Brien Accommodation School District	51.6%
Yavapai Accommodation School District	49.6%
Rainbow Accommodation School District	47.1%
Maricopa County Regional School District	43.6%
Pinal County Special Education Program	40.3%
Coconino County Regional Accommodation School District	39.1%
Graham County Special Services	38.2%
Santa Cruz County Regional School District	22.8%

Joint Technological Education¹ Average = 21.8%

Northeast Arizona Technological Institute of Vocational Education	60.7%
Northern Arizona Vocational Institute of Technology	53.5%
East Valley Institute of Technology	50.0%
Central Arizona Valley Institute of Technology	21.8%
Gila Institute for Technology	17.3%
Valley Academy for Career and Technology Education	9.7%
Western Maricopa Education Center	4.2%
Cobre Valley Institute of Technology District	0.2%
Cochise Technology District	0.0%
Coconino Association for Vocation Industry and Technology	0.0%

¹ The percentages for Joint Technological Education Districts include only their direct expenditures and exclude monies passed through to their member school districts.

Source: Auditor General staff analysis of fiscal year 2007 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by individual school districts.

CHAPTER 2

Districts' uses of Proposition 301 monies

School districts, charter schools, and state schools received almost \$408 million of the total Proposition 301 monies collected in fiscal year 2007. As in prior years, school districts used Proposition 301 monies primarily to increase salaries of certified teachers and other employees they have defined as eligible. These monies continued to account for 2 percent to 22 percent of eligible employees' pay and ranged from \$924 to \$8,203 on average. While statutory changes made in 2006 require district governing boards to adopt future Proposition 301 performance pay plans at public meetings and to address specified elements, only 114 of the 223 districts distributing Proposition 301 monies report obtaining governing board approval of their plans in public meetings. Further, only 47 districts incorporated all of the specified performance elements.

Background

In November 2000, voters approved Proposition 301, which increased the state sales tax by six-tenths of 1 percent for 20 years to fund educational programs. Under Arizona statutes, school districts receive only part of the Proposition 301 monies. Statutes define and prioritize nine education programs that receive Proposition 301 distributions before schools. In addition, the State General Fund is reimbursed for the increased income tax credits to low income households resulting from the sales tax increase prior to schools being funded. As shown in Table 7 (see page 26), the Students FIRST Debt Service Fund receives the first allocation, the amount necessary to make annual debt service payments for outstanding state school facilities revenue bonds. The other prioritized distributions go to universities, community colleges, the Arizona Department of Education, and the State's General Fund. In fiscal year 2007, these other distributions accounted for about \$284 million of the \$665 million of Proposition 301 sales tax revenues, or 43 percent.

Table 7 Proposition 301 Distributions in Statutory Priority Order
Fiscal Years 2006 and 2007
(Unaudited)

	FY 2006	FY 2007
Sales Tax Revenue	\$621,779,771	\$664,850,905
Students FIRST Debt Service Fund—The amount necessary to pay annual debt service payments for outstanding state school facilities revenue bonds. The revenue bonds cannot exceed \$800 million.	65,804,955	65,794,530
Universities—Technology and Research Initiative Fund for investment in technology and research-based initiatives (12 percent of amount remaining after Students FIRST deduction.)	66,716,978	71,886,765
Community College Districts—For districts' Workforce Development Accounts that invest in workforce development programs (3 percent of amount remaining after Students FIRST deduction.)	16,679,244	17,971,691
Tribal Assistance—To community colleges owned, operated, or chartered by qualifying Indian tribes for investment in workforce development and job training	543,976	548,874
Arizona Department of Education (ADE) for five programs:		
• Additional School Days—To fund additional school days and the associated teacher salaries	86,280,500	86,280,500
• School Safety programs	7,800,000	7,800,000
• Character Education matching grant program	200,000	200,000
• School Accountability—For developing performance measures and a state-wide database on student attendance and academic performance	7,000,000	7,000,000
• Failing Schools Tutoring Fund	1,500,000	1,500,000
Income tax credit for sales tax paid—Reimburses the State's General Fund for the increased income tax credits to low-income households resulting from the sales tax increase	<u>25,000,000</u>	<u>25,000,000</u>
Remaining Sales Tax Revenue	344,254,118	380,868,545
Other Classroom Site Fund Resources/Deductions:		
Permanent State School Fund earnings (Land Trust)	17,834,630	66,971,305
Prior year carryforward	17,426,057	4,500
Monies withheld for AIMS noncompliance ¹		
Monies withheld for Arizona School Improvement Plan (ASIP) noncompliance ²		
Monies not yet distributed ³	<u>(4,500)</u>	<u>(39,910,633)</u>
Total Classroom Site Fund—Distributed to districts and charter and state schools	<u>\$379,510,305</u>	<u>\$407,933,717</u>

¹ These monies were to be distributed once schools complied with AIMS requirements.

² These monies are lost to the districts; monies are not returned to districts when plan has been submitted.

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

Source: Auditor General staff analysis of Arizona Department of Education and Arizona State Treasurer's Office fiscal years 2006 and 2007 revenue collection and distribution data.

After all of these distributions, any remaining Proposition 301 sales tax collections go to the Classroom Site Fund (CSF) for allocation to public school districts, charter schools, and state schools for deaf, blind, and committed youth. In fiscal year 2007, sales tax collections plus other sources to this fund totaled approximately \$408 million, including \$4,500 in monies carried forward from prior fiscal years. ADE distributes Proposition 301 monies to districts based on a per-pupil rate set by the Joint Legislative Budget Committee (JLBC). For fiscal year 2007, the JLBC established a \$333 per-pupil rate. In total, ADE distributed approximately \$366 million to school districts, or about 90 percent of the \$408 million distributed; charter and state schools received the remainder.

Once school districts receive the monies, they must comply with statutory requirements regarding how the monies may be spent. Arizona Revised Statutes (A.R.S.) §15-977 directs districts to use at least 60 percent of CSF monies for teacher compensation. Districts are required to direct 20 percent toward increasing teachers' base pay and another 40 percent toward pay for performance. The remaining 40 percent, known as menu monies, can be used for six specified purposes: AIMS intervention (for the state-standardized test, Arizona's Instrument to Measure Standards), class size reduction, dropout prevention, additional teacher compensation, teacher development, or teacher liability insurance. Districts are required to use these monies to supplement, not supplant, existing funding. Further, in succeeding years, the Legislature required that monies directed toward class size reduction, AIMS intervention, and dropout prevention be spent only on instruction, except athletics.¹ In 2005, the Legislature established the Arizona Performance Based Compensation System Task Force to evaluate and report on school districts' performance-based compensation.² In conjunction with establishing this task force, the Legislature also established requirements for Proposition 301 performance pay, which previously did not have guidelines. These new requirements specify that the Governing Board must adopt the plan at a public meeting and list certain elements that should be contained in the plan, but can be modified.

Districts continue to spend more than 90 percent of Proposition 301 monies for teacher pay

As shown in Table 8 (see page 28), school districts spent more than \$351 million of the approximately \$366 million distributed to them in fiscal year 2007. The largest proportion of school districts' Proposition 301 expenditures, 93.5 percent, was used for instruction purposes, such as paying teacher salaries and benefits.

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

² By June 30, 2010, this task force is to develop and report recommendations on the implementation, operation, and monitoring of performance-based compensation systems in school districts. Laws 2005, First Regular Session, Chapter 305, amended A.R.S. §15-977.

Table 8: Proposition 301 Expenditures by Function
 Fiscal Year 2007
 (Unaudited)

Function	Base Pay	Performance Pay	Menu Options	Total Expenditures	Percentage of Total
Classroom (instruction)	\$64,986,150	\$131,480,120	\$132,412,317	\$328,878,587	93.5%
Student Support	2,524,854	4,205,507	4,768,591	11,498,952	3.3
Instruction Support	1,147,768	2,800,045	7,307,158	11,254,971	3.2
Administration	32,558	32,822	88,036	153,416	0.0
Plant Operations & Maintenance	607	0	3,837	4,444	0.0
Transportation	0	0	918	918	0.0
Other	4,406	0	0	4,406	0.0
Total Expenditures	\$68,696,343	\$138,518,494	\$144,580,857	\$351,795,694	100.0%

Source: Auditor General Staff analysis of district-reported fiscal year 2007 school district Annual Financial Reports provided by the Arizona Department of Education and summary accounting data provided by the individual school districts.

Proposition 301 monies primarily spent for allowable purposes—

While more than half of the districts include Student Support Services and Instruction Support Services staff in Proposition 301 pay increases, a few districts paid questionable costs, which may still be allowable Proposition 301 expenditures. For example, a few districts used Proposition 301 monies to pay employees holding what are typically considered administrative positions, such as dean of students and program directors. Six districts used a portion of Proposition 301 monies to pay for allowable interest expenses, and two districts paid for teacher liability insurance, which is an allowable plant operation expense.

Further, as stated above, A.R.S. §15-977 requires that menu monies directed toward class size reduction, AIMS intervention, and dropout prevention be spent only on instruction, except that they cannot be spent for athletics. In prior fiscal years, some districts have spent menu monies for expenditures not allowed by law. For example, in fiscal year 2006, four districts spent approximately \$209,000 of their menu monies on administration, plant operation and maintenance, and transportation expenditures, such as security personnel for dropout prevention programs and transportation to AIMS intervention programs. However, in fiscal year 2007, auditors did not identify any similar misuses of Proposition 301 menu monies.

Performance audits identified supplanting issues at two districts—

On the other hand, as part of school district audits conducted in fiscal year 2007, auditors identified two districts that used Proposition 301 monies for unallowable purposes. Specifically, A.R.S. §15-977 prohibits school districts from supplanting existing district monies with Proposition 301 monies. However, a performance

audit of one elementary school district found that it had supplanted by using approximately \$25,000 of Proposition 301 monies to pay a portion of four employees' salaries that were previously paid using other district monies. In addition, another performance audit of a unified district found that it may have used at least \$1 million in Proposition 301 monies to supplant or pay for costs that would otherwise have been paid by maintenance and operation monies.

Pay increases varied widely, ranging from 2 to 22 percent—Proposition 301 monies contribute significantly to many districts' teacher salaries. For the 223 districts including salary information on their required Classroom Site Fund spending reports, Proposition 301 monies provided an average increase of 11 percent, or \$4,016. On an individual district basis, however, the average increases ranged from approximately 2 to 22 percent, which equated to \$924 to \$8,203 per eligible employee.

One reason for the wide variance in pay increases is that Proposition 301 monies are distributed on a per-pupil basis, rather than based on the number of eligible employees. As a result, districts with fewer pupils receive smaller amounts than those with more pupils. Similarly, teachers in districts with larger student-teacher ratios could potentially receive more monies than those with fewer students per teacher. Further, districts with the highest pay increases generally were also paying out unspent Proposition 301 monies from prior fiscal years in addition to fiscal year 2007 monies. For example, of the 33 districts that paid an average of \$6,000 or more to each eligible employee, 18 districts used unspent prior years' Proposition 301 monies in addition to fiscal year 2007 revenues.

State-wide average teacher pay has increased by \$6,657 since the inception of Proposition 301 monies—According to salary data collected by the Arizona Department of Education (ADE), the State's average teacher salary increased from \$37,176 in 2001 to \$43,833 in 2007. The majority of the \$6,657 increase occurred in fiscal year 2006, with a \$3,872 increase over fiscal year 2005's average teacher salary. However, in fiscal year 2007, the average state-wide teacher salary increased by only \$866. As discussed in Chapter 1, the fiscal year 2007 average teacher salary would have been higher; however, school districts are likely using Proposition 301 monies to supplant other district monies.

Eligible employees included staff other than certified teachers—In addition to providing salary increases for teachers, as shown in Table 9 (see page 30), about one-half of the districts continue to report providing Proposition 301 pay increases to librarians and counselors. Fewer districts paid Proposition 301 monies to speech pathologists, instructional aides and "Other" staff, such as nurses and instructional specialists. Also among those in the "Other" category, one very small district continued to pay Proposition 301 monies to staff not typically included, such as school office staff. The district indicated that these employees were also involved in its students' education.

**Table 9: Number of Districts Paying Increases
By Position and Fund
Fiscal Year 2007**

Position	Number of Districts		
	Base Pay	Performance Pay	Menu Options
Teachers	221	220	200
Librarians	112	113	106
Counselors	119	120	111
Speech Pathologists	64	63	58
Instructional Aides	10	17	30
Other	71	75	76

Source: Auditor General staff analysis of district-reported data in fiscal year 2007 Classroom Site Fund Narrative Results forms.

Districts based performance pay on a variety of goals—Districts created a variety of goals as a basis for awarding the 40 percent of Proposition 301 monies

required to be used for performance-based pay increases. As in prior years, most districts reported performance pay goals related to student achievement, teacher development, and to parent and student satisfaction or involvement, as shown in Table 10.

**Table 10: Number of Districts with Performance Pay Goals by Category
Fiscal Year 2007**

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

Source: Auditor General staff analysis of district-reported data indicating one or more goals set and accomplished obtained from fiscal year 2007 Classroom Site Fund Narrative Results forms.

As noted previously, school district governing boards must adopt at a public hearing the performance-based compensation system for Proposition 301 and other performance-based monies.¹ The compensation system must incorporate seven specific performance measurement elements such as measures of academic progress, dropout or graduation rates, and attendance rates. The plans must also include the input of teachers and administrators, an appeals process for teachers who have been denied

performance-based compensation, regular evaluation for effectiveness, teacher development programs, and approval of the system based on an affirmative vote

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

of at least 70 percent of the teachers eligible to participate in the system. However, districts may revise these elements as long as the compensation system is adopted at a public meeting. Districts' Proposition 301 spending reports show that 203 of the 223 districts receiving Proposition 301 monies indicated that they obtained teachers' and administrators' input when developing their performance compensation systems. Further, only 168 districts reported receiving plan approval from at least 70 percent of eligible teachers, and 114 districts reported that their plans were governing board approved.

Although statute lists seven performance measurement elements, district plans continue to vary as to the number and type of elements incorporated, as shown in the attached Appendix. For example, 47 districts incorporated goals addressing at least six different areas of performance measurement, including goals related to achieving measures of academic progress, such as targeting certain percentages of growth in standardized test or district assessment scores, achieving Adequate Yearly Progress, or attaining AZ LEARNS labels of "performing" or better for their schools. These districts often also required improved student and teacher attendance rates, dropout or graduation rates, and parent or student satisfaction with school or district quality and performance. Many of these districts further incorporated goals requiring teachers to participate in professional development activities, committees, mentoring, and tutoring. However, other school districts' performance pay plans were based on only one or two goals. For example, 38 districts' plans did not include any goals measuring academic progress or school or district performance. Of these districts, 2 based performance pay solely on teachers' receiving acceptable performance evaluations.

A.R.S. §15-977 also requires districts to submit information on their compensation systems to ADE by December 31 of each year through 2009. The plans are then reviewed by the Performance-Based Compensation Task Force, which is charged with developing and reporting recommendations on the implementation, operation, and monitoring of performance-based compensation systems in school districts to the Legislature by June 30, 2010. To encourage uniformity, the Task Force provided districts with a template based on statutory language and legislative intent to use when preparing their plans. According to the Task Force's November 2007 report to the Legislature, 147 districts submitted fiscal year 2007 performance-based compensation plans for review. While the Task Force felt that the quality of the districts' plans had improved since those that they reviewed in fiscal year 2006, the plans did not provide sufficient information for the Task Force to determine whether the plans included systematic solutions to improve student achievement. However, the Task Force identified eight district plans that it deemed noteworthy and is requesting that an outside evaluator study these plans further.

Districts directed menu monies toward various Proposition 301 purposes as well as teacher compensation—Although districts reported spending Proposition 301 menu monies primarily for teacher

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

Individual district results

Further information about how each district reported spending its Proposition 301 monies, its classroom dollar percentage, and related data is provided in the attached Appendix.

APPENDIX

This appendix provides alphabetically organized one-page information sheets on individual school districts. Each page contains a summary of the district's reported results using Proposition 301 monies, and its classroom and nonclassroom spending. Each page also contains descriptive and comparative information; n/a is used to indicate if data is not available or is not applicable.

Table 11 shows the sources of data used on the individual district pages, and also defines some common terms and acronyms used to describe districts' Proposition 301 goals and results. Also, for reference, a map of the Arizona counties is included as Figure 6 on page a-4.

Table 11: Individual District Page Source Information

Data	Source
Students attending	Auditor General staff analysis of Arizona Department of Education's (ADE) average daily membership (ADM) counts for fiscal year 2007. ADM numbers are rounded to the nearest whole number. Auditors included kindergarten students' ADM at a full count for the districts that offer all-day kindergarten at no charge to parents.
District size	Auditor General staff analysis of ADE's fiscal year 2007 ADM counts. District sizes were categorized as follows: <ul style="list-style-type: none"> • Very Large 20,000+ • Large 5,000 to 19,999 • Medium 600 to 4,999 • Small 200 to 599 • Very Small fewer than 200
Number of schools	ADE fiscal year 2007 data.
Number of certified teachers	ADE October 2006 data on full-time-equivalent (FTE) certified teachers for fiscal year 2007. Certified FTE numbers are rounded to the nearest whole number.
Student/teacher ratio, district and state for 2005, 2006, and 2007	Auditor General staff analysis of ADE's ADM and certified teacher counts for fiscal years 2005, 2006, and 2007.

Table 11 (Cont'd)

Data	Source
Average teacher salary, state—2007	ADE average annual salaries associated with full-time-equivalent certified teachers, for fiscal year 2007.
Average teacher salary, district—2005, 2006, and 2007	District-reported average fiscal years 2005, 2006, and 2007 teacher salaries, including Proposition 301 monies. Some districts reported corrections to their previously reported prior years' average salary information.
Average years' experience, district—2005, 2006, 2007; and state—2007	ADE average years' experience associated with full-time-equivalent certified teachers, by district, for fiscal years 2005, 2006, and 2007. The maximum years of experience that ADE includes for calculation and reporting purposes is 15 years.
Classroom dollars—Pie chart and per-pupil expenditures	Auditor General staff analysis of fiscal year 2007 school district summary accounting data and Annual Financial Reports (AFRs), and ADE's fiscal year 2007 ADM counts.
Classroom dollar ranking	Auditor General staff analysis of 229 Arizona school districts' summary accounting data and AFRs. The ranking numbers are from 1 (highest) to 229 (lowest) based on percentage of dollars spent in the classroom.
5-year comparison—District and state percentages for 2003 through 2007	Auditor General staff analysis of school district summary accounting data and AFRs for fiscal years 2003 through 2007.
Expenditures by function—District and state percentages in fiscal years 2003 through 2007	Auditor General staff analysis of school district summary accounting data for fiscal years 2003 through 2007.
Expenditures by function—National Percentage	NCES fiscal year 2005 data. Although the 2007 data is not yet available, the national percentages have been relatively stable. For the most recent 5-year period that is available, fiscal years 2001 to 2005, the variations were less than 0.3 percent in any of the functional categories.
Proposition 301—District-reported results	Auditor General staff analysis of district-reported Classroom Site Fund Narrative Results. The narrative form was completed by each of the 223 districts receiving Proposition 301 monies in fiscal year 2007.

♦

Table 11 (Concl'd)

Definitions of commonly used terms and acronyms

AZ LEARNS	Arizona LEARNS is an accountability program administered by ADE and established under A.R.S. §15-241 to rank school performance using standardized test results and other criteria. Using these criteria, ADE annually labels schools as “excelling,” “highly performing,” “performing,” “performing plus,” “underperforming,” or “failing to meet academic standards.”
AIMS	AIMS, or Arizona’s Instrument to Measure Standards, is a series of standardized tests that assess student achievement in reading, writing, and math. The tests are administered to students in grades 3 through 8, and high school. To graduate from high school, students must successfully pass these tests during high school.
ELL	English Language Learner
SEI	Structured English Immersion

Figure 6: Map of Arizona Counties

