

REPORT HIGHLIGHTS SPECIAL STUDY

Subject

This is the fourth annual report addressing the percentage of dollars spent in Arizona's classrooms and the uses of Proposition 301 monies. A voter-approved increase in the state sales tax generates the Prop 301 monies that are provided to schools for specified classroom purposes.

Our Conclusion

In FY 2004 Arizona schools spent an average of 58.6 cents of each dollar in the classroom, the same as in FY 2003. Arizona continues to fall below the most recent (FY 2002) national average of 61.5 percent and the average of 61.3 percent for the ten states comparable to Arizona in per-pupil spending. As in prior years, nearly all Prop 301 monies were spent for teacher compensation and resulted in average teacher pay increases of about 10 percent.



2005

February 2005

Classroom Dollar Percentage

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

Classroom Dollars include:

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

Exclude:

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

School districts spent 58.6 percent of dollars in the classroom

In FY 2004, Arizona's classroom dollar percentage remained the same as FY 2003 at 58.6 percent. If districts had maintained their previous levels of spending from non-Proposition 301 monies, the state-wide classroom dollar percentage would have been 59.2 percent.

As with last year, the individual district percentages varied significantly after excluding certain special-purpose districts, from a low of 35 percent to a high of 83 percent. Small districts tend to have the very low or very high percentages. Most districts (almost two-thirds) are within 5 percentage points of the state average.

Arizona below national and peer states' averages

Arizona's average is still below the national average which was 61.5 percent, based on the latest data available from the NCES (FY 2002). Arizona is also below the average of ten peer states—states that spend a similar amount per pupil as Arizona. These peer states spend an average of 61.3 percent of their dollars in the classroom.

Higher spending on plant and student support services

Arizona's classroom dollar percentage was lower than the national and peer group averages primarily because districts spent at least 2 percentage points more on both plant operation and maintenance, and student support services. This more than offsets the Arizona districts' progress in reducing administrative costs. The state-wide average for administrative costs has decreased from 10.5 percent in FY 2001 to 9.5 percent in FY 2004 and continues to be below the national average.

Comparison of Arizona District Spending to National and Peer Group Averages, by Functional Area

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

Quality of districts' plans affects classroom spending

In February 2003, the Governor's Office asked school districts to submit plans on how they would move an additional 5 cents of each dollar into their classrooms. Of 227 districts reviewed, only 22 increased their classroom percentage by more than two points. These districts had clearer, better-defined action plans with steps that improved the likelihood of increasing classroom dollars, such as eliminating specific administrative positions or hiring teachers.

In contrast, 29 districts decreased their classroom dollar percentage by more than 2 percentage points. These districts had less-specific plans, and many of the plans called for steps that would not have improved the classroom dollar percentage, such as eliminating a teaching position or a class.

Factors associated with classroom spending

Certain factors reported in previous studies continue to be associated with higher or lower classroom spending.

Larger district size associated with higher classroom spending—As we reported last year, the primary factor associated with higher classroom spending is district size. Generally, the more students a district

has, the higher the percentage spent in the classroom.

Factors associated with lower classroom spending—Certain factors continue to be negatively related to the percentage of dollars spent in the classroom. The most significant factors are plant, administration, and transportation costs. Districts that spent the most per-pupil in these areas had the following characteristics:

Plant operation and maintenance

- Serving fewer students
- Located at higher elevations with colder temperatures
- Operating and maintaining older buildings
- Serving more high-school students
- Providing twice the building space per pupil

Administrative costs

- Serving fewer students
- Higher administrative staffing levels

Transportation costs

- Serving fewer students
- Transporting students farther
- Transporting higher percentage of students

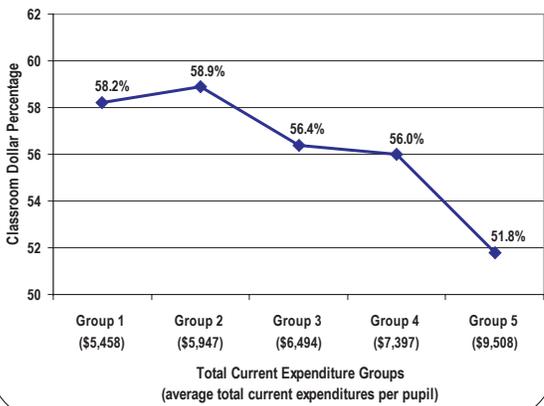
Average Classroom Dollar Percentages of Districts Grouped by Size

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

Higher total spending does not equate to higher classroom percentages

Within Arizona, higher per-pupil total spending does not equate to higher classroom dollar percentages. In fact, on average, districts that spent the most per pupil have lower classroom dollar percentages.

Classroom Dollar Percentages of Districts Grouped by Per-Pupil Expenditures



High noninstructional spending may or may not be within district control. Districts have little control over their location and student population size. However, districts have significant control over the efficiency of their operations and uses of many of their special-purpose revenues, such as budget overrides, federal impact aid, and small school budget adjustments.

How Districts Spent Proposition 301 Monies

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

In FY 2004, districts received about \$232 million of Prop 301 monies, based on the number of their students.

Ninety-three percent spent in classroom—Almost all of Prop 301 monies were spent on salaries and benefits, with 93 percent of these monies being spent on classroom expenditures such as teacher salaries and benefits.

Some districts include librarians and others—In addition to teachers, about one-half of the districts used Prop 301 monies to provide salary increases to librarians and counselors.

Pay Increases by Position by Fund

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

Prop 301 monies represented an average 10 percent increase in teacher salaries— In their annual reports on Prop 301 program results, districts reported that:

- Teacher salaries increased an average of 10 percent from Prop 301 pay in FY 2004
- Individual Prop 301 pay increases ranged from 1 to 20 percent
- On average, the amounts of these pay increases ranged from \$500 to \$6,700 per eligible employee

Districts with the highest increases often paid out unspent monies from prior years in addition to FY 2004 monies.

Performance pay based on a variety of goals—40 percent of Prop 301 money is allocated to performance pay. Although most districts included goals related to student achievement, districts varied in the goals they established for awarding performance pay. However, almost all districts reported accomplishing their performance pay goals.

Number of Districts with Performance Pay Goals by Category

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

Other uses of Proposition 301 monies—In addition to increasing teacher salaries, districts were able to spend some Prop 301 monies for other purposes. Although the monies primarily went to directly increasing teacher salaries, some of the salary costs were associated with these other purposes, such as AIMS intervention and dropout prevention.

A district-by-district perspective of dollars in the classroom

Our full report includes:

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

TO OBTAIN MORE INFORMATION

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



or by visiting our Web site at:
www.auditorgen.state.az.us

Contact person for this report:
Sharron Walker