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A Guide to Understanding State Funding of Arizona Public School Students

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PREFACE, by Robert C. Enlow, Executive Director, Milton and Rose D. Friedman Foundation

Educational *Choice*

As the debate surrounding school choice and school financing continues around the country, I am frequently struck by how little is known about how states fund K-12 education. Various legislatures and the courts mandate equalized funding and accountability, but states often lack the transparency necessary to ensure compliance. Given the complexity of school financing, typically only a handful of people in a state understand how funding formulas work or how much money is spent per student. Arizona is no different.

As a result, legislators must often develop school financing policies without accurate information, and the public must wade through competing claims that school choice would drain resources from public schools or save the state millions of dollars.

The analysis of Arizona's school financing system, conducted by Friedman Foundation Senior Research Fellow Susan Aud and our partners at the Goldwater Institute, helps remedy these problems by: 1) compiling Arizona Department of Education financial data and accurately detailing how public schools are funded; 2) clarifying the minimum funding amount the state has determined is tied to students when they enter the public school system or change districts; and 3) identifying the potential savings to the state under a system of education grants redeemable at both public and non-public schools. With this information, Arizonans now have the most comprehensive resource on school finance yet presented.

Importantly, the projected savings to Arizona from an education grant system resembles those found in several other states. Researchers from Utah State University and Southern Utah University, for example, projected that tuition tax credits could save the state between \$26.4 million and \$144.3 million annually. Studies by Clemson University's Cotton Lindsay and Brian Gottlob of PolEcon Research found, respectively, that an education tax credit program could save South Carolina \$594 million by its fifth year, and a voucher program could save New Hampshire \$9 million in its first year.

With the analysis of Arizona's school financing system, we are now seeing a growing body of evidence that simply cannot be ignored. In the end, this is not simply a study about school choice but about the transparency and accuracy necessary for ensuring a rational, informed and productive debate about education financing in Arizona. Ultimately, without these twin pillars of transparency and accuracy, states will have a much more difficult time ensuring the effectiveness of school financing and true accountability for performance.

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EXECUTIVE SUMMARY

Twenty years ago, TurboTax revolutionized income tax preparation.¹ This analysis and accompanying database will bring the same simplicity, transparency, and accuracy to Arizona public school finance that Turbo Tax brought to the United States Internal Revenue Code by presenting complex Department of Education financial data in a clear and understandable way. Currently, the state does not synthesize the department's multiple accounting systems, making it difficult for the public to know how much is actually being spent on students. This also makes it difficult for policymakers to obtain accurate figures to create informed education policy. For instance, the National Education Association, the country's largest teachers union, says the state spends \$5,009 per student, and *Education Week's* annual *Quality Counts* ranking claims Arizona spends \$5,487.² With so many conflicting figures, how can Arizona policymakers and taxpayers know the cost of educating a student in an Arizona public school?

For the first time, with the database accompanying this study (available on the Goldwater Institute website at www.goldwaterinstitute.org), policymakers and the public can readily access the most accurate per-student expenditures—by both student and district type—for all 218 regular Arizona public school districts. This database will also be updated as new information becomes available. This analysis explains Arizona's base equalization formula funding and suggests an alternative education finance model. It focuses on the state base equalization funding tied to students to determine the net change in district revenue if a student transfers to a school outside the district.

Total per-student funding consists of two types—those that vary according to the number of students in a district and those that are fixed.³ The first type is referred to in Arizona as equalized base funding. This is the amount the state has determined is tied to students when they enter the public school system, when they leave it, or when they change districts. The second type, omitted from most published reports, includes local, county, non-equalized state, and federal funding. This is the portion of per-student funding that is fixed, or not based on student counts, and remains with school districts if students leave.

This analysis finds that the average state base equalization funding per student ranges between \$4,200 and \$4,600, and the average per-student portion of non-equalized district funding is \$4,309. Thus, the average total spending for an Arizona public school student is between \$8,500 and \$9,000. These are minimum averages because they apply to students who do not have special educational needs, such as learning or physical disabilities and English language learner status, and who do not attend schools in districts that are small and/or located in rural areas.

Thus, policymakers and the public can now see how much education funding is directly tied to students and how much stays with school districts. The online database breaks down state equalization base funding for students according to four categories and non-equalized district funding into per-student amounts according to local, county, state, and federal funding categories.⁵ With that data, policymakers can readily calculate the fiscal impact to school districts and the state if students were given education grants to attend private schools. For instance, if five percent of public school students in Arizona, roughly 40,000, transferred to private schools using elementary education grants worth \$3,500 and high school education grants worth \$4,500—both less than current state base equalization funding—the net savings to the state and local districts would have amounted to \$32 million in fiscal year 2003.⁶ Total funding in half of the school districts would have remained unchanged, and in the other half it would have decreased by less than one percent.

Table 1: Average Total Spending Per Student by Funding Source and Grade Level

	K-3	Grades 4-8	Grades 9-12
State average equalized base support level funding per student: (Tied to students)	\$4,394	\$4,221	\$4,604
	+	+	+
Minimum per-student portion of non-equalized district funding: (Not based on student count, stays with district)	\$4,309	\$4,309	\$4,309
	=	=	=
Total average base funding per student	\$8,703	\$8,530	\$8,913

Source: Arizona Department of Education, in 2003 unadjusted dollars.

Note: “Average Per-Student Portion of Non-Equalized District Funding” includes local, county, state, and federal funding.⁴

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Introduction

The growing complexity of the state's school finance system means that it is difficult for the public to know how much is actually being allocated to educate a public school student in Arizona, and it is difficult for policymakers to obtain accurate data upon which to base education policy.

Today, K-12 education must serve the needs of an increasingly diverse and mobile student population as it struggles to meet demands for improved educational quality and to prepare students to compete in the highly competitive international economy. Moreover, K-12 education is now subject to strict accountability standards from the state and federal governments—in particular the No Child Left Behind Act. Achievement data must now be made publicly available so parents can make informed decisions and exercise greater school choice to find the best schools for their children's particular needs.

Not only must schools make achievement data available, but they must also provide detailed financial data to the public. However, although schools and districts are increasingly required to be student-centered under state and federal accountability measures, the underlying public education finance structure remains largely opaque to citizens. Moreover, the system-centered public education finance structure continues to be based on property wealth rather than the actual cost of educating children.

Several recent trends have emerged in public education finance in Arizona,

including attempts to equalize education funding throughout the state. Beginning in the 1980s, several amendments were made to Title 15 of the Arizona Revised Statutes, which governs the Arizona Department of Education, to equalize funding among districts and to improve accountability.⁷ Those amendments were intended to reduce disparities in tax rates and minimize schools' reliance on local property taxes, which can vary widely throughout the state.⁸

Unfortunately, these changes have also produced some unintended consequences, including unnecessary complexity, a continued reliance on property values rather than the actual costs of educating students, and multiple, uncoordinated accounting systems that fail to provide the information taxpayers, parents, and policymakers need. The growing complexity of the state's school finance system means that it is difficult for the public to know how much is actually being allocated to educate a public school student in Arizona, and it is difficult for policymakers to obtain accurate data upon which to base education policy. To inform the public debate, this study presents the first and most comprehensive analysis available of per-student public school expenditures based on the latest Arizona Department of Education financial data for all 218 regular state public school districts for

fiscal year 2003.

This study analyzes data from the Arizona Department of Education's multiple accounting systems: the Uniform System of Financial Reporting (USFR), the Student Accountability Information System (SAIS), and the State Superintendent's Annual Financial Report (SAFR).⁹ The accompanying database, available at www.goldwaterinstitute.org, compiles all the data, presenting them in a clear and comprehensible way, to make the most accurate student and school district financial information readily available.

Those data reveal the amount the state and districts allocate for base equalization funding per student in each regular Arizona school district. They also make it possible to determine the net change in district revenue when a student leaves his or her current public school district under existing state funding formulas. For instance, a fourth grader with no disabilities receives roughly \$4,500 in state equalized base funding, which is variable funding, to attend schools in non-rural, non-isolated districts in Arizona. If that fourth grader transfers from the Scottsdale Unified School District to the Paradise Valley Unified School District, the Scottsdale district loses the student's \$4,500 in base funding and the Paradise Valley district gains it.

However, the per-student portions of non-equalized fixed funding that districts keep even if a student transfers to a school outside the district vary considerably. Even though the

Scottsdale district loses \$4,500 if the fourth grader leaves, along with the expense of educating that child, it keeps \$9,200 in non-equalized fixed funding to distribute among a smaller number of students. In contrast, if that same fourth grader transferred back to the Scottsdale district, the Paradise Valley district would keep \$3,200 non-equalized fixed funding. Knowing how much funding is tied to students and how much funding stays with school districts, policymakers can calculate the fiscal impact to school districts and to the state if students were given education grants to attend private schools.

Unfortunately, the Arizona Department of Education's Student Accountability Information System and the Superintendent's Annual Financial Report do not precisely square with each other. Consequently, student formula funding amounts were determined using data from the Student Accountability Information System, while district funding amounts, in particular the sources of revenue and the actual expenses by category, are derived from Superintendent's Annual Financial Report reports. Given the inconsistencies between the Arizona Department of Education's accounting systems, the study uses approximations in some cases.¹⁰ A primary purpose of the Superintendent's Annual Financial Report is to provide parents with information on their children's schools. The difficulty in obtaining basic financial data under the current system should concern policymakers.

Knowing how much funding is tied to students and how much funding stays with school districts, policymakers can calculate the fiscal impact to school districts and to the state if students were given education grants to attend private schools.

The data used for this study are also contained in an interactive database available on the Goldwater Institute website at www.goldwaterinstitute.org. Policymakers and the public can use this database to determine the required state base funding for any specific type of student from any of the 218 regular public school districts. This is particularly beneficial for those who wish to better understand the finances of their home districts or to compare districts. It also provides a check on the system, in that published numbers can be easily verified for accuracy. Finally, this database makes a complex education finance system accessible and understandable.

This analysis seeks to lend clarity to the education finance discussion by providing both a model and an explanation of Arizona's per-student state base equalization formula.

Establishing State Per-Student Base Equalization Funding

One of the most comprehensive changes to the Arizona school finance system was made in the early 1980s in response to several legal challenges to financing education with property taxes, which vary widely throughout the state.¹¹ In an attempt to equalize school funding, a “foundation” system of financing was developed. This system calculates base per-student formula funding through four revenue categories.¹² The result is referred to as the “base equalization” amount that the state of Arizona requires each district to appropriate based on its total mix of students. Districts that are not able to generate sufficient revenue through local property taxes to meet the minimum

receive equalization assistance from the state. Regardless of the source of funds, this base equalization funding amount represents the amount of education funding the state has determined should be dedicated to each student.

In addition to this equalized base funding amount, districts can raise supplemental funding through voter-approved secondary local property taxes for overrides and bonds.¹³ Generally speaking, students’ base equalization funding amounts to approximately half of a district’s total education funding. For example, in fiscal year 2003 total education spending in the state of Arizona from all sources—local, county, state, and federal—was \$7.1 billion, with students’ base equalization formula funding accounting for \$3.5 billion.¹⁴

State Per-Student Base Equalization Funding Categories

This analysis seeks to lend clarity to the education finance discussion by providing both a model and an explanation of Arizona’s per-student state base equalization formula. The rationale for focusing on student expenditures, rather than district expenditures, is that the per-student base equalization funding is the amount the state has determined is tied to students when they enter the public school system, when they leave it, or when they change districts within the state. The following section gives a brief explanation of the four categories that

compose the state base equalization formula and uses the related fiscal year 2003 data to calculate the minimum base funding amounts for K-3, fourth through eighth grade, and high school students.¹⁵

1. Base Support Level (BSL)

This category covers general maintenance and operations expenses, such as teacher salaries and supplies. For the 2002-2003 school year, the base support level amount per student is set at \$2,788.32. This amount is then multiplied by factors, or weights, for each student, categorized as “Group A” and “Group B” weights. In general, Group A weights are determined by a student’s grade level and his or her district’s size and isolation status. Group B weights pertain to a student’s special needs status, if applicable, such as learning disabilities, hearing impairment, or English language learner status.

Two points of interest should be noted here. First, no student receives the unweighted base support level amount, as there is not a weighting category of 1.0. The smallest weight is 1.158 for an elementary school student in a large, non-isolated school district. This means that the smallest amount of funding tied to an Arizona student in this category is \$3,228.88 (\$2,788.32 multiplied by a Group A weight of 1.158). Thus, the actual per-student base amount begins at 15.8 percent higher than the unweighted base of \$2,788.32.

Second, all K-3 students receive a Group B weight of .06. Thus, the lowest possible funding a K-3 student could receive is \$3,396.17 (a \$2,788.32 unweighted base amount multiplied by the Group A weight of 1.158, amounting to \$3,228.88, plus the additional Group B weight of .06, or \$167.30). It is not clear why this additional base funding is generated through Group B weights rather than through Group A weights.

One would assume that high school students would have a higher Group A weight because the schools they attend have more extensive facilities, such as science laboratories, auditoriums, and sports fields. However, the Group A weight for high school students is only about 10 percent higher than elementary students, or 1.268, making base support level funding for high school students \$3,535.59 (a \$2,788.32 un-weighted base multiplied by the Group A weight of 1.268).¹⁶ The Group A weights are higher for small and/or isolated districts. Group B weights are then applied on top of each student’s Group A weights.

In addition to the Group A and Group B school district and student weights, a Teacher Experience Index (TEI) weight can increase the per-student base support level amount. This index compensates school districts that hire teachers with more years of experience than the state average. The Teacher Experience Index weight can be as high as 1.1427, meaning all students in that district have a base support level funding amount that is more than 14

percent, or at least \$400 higher than similar students in other districts. However, districts with Teacher Experience Indices that are lower than the state average are not penalized.¹⁷ For the purposes of this analysis, which seeks to calculate a minimum base equalization amount, TEI funding additions are not considered.

The minimum base support level funding for students who attend schools in large, non-isolated school districts amounts to:

- \$3,396 for K-3 students
- \$3,229 for elementary students in grades four through eight
- \$3,536 for high school students

On average, then, the lowest per-student base support level funding the state could require is roughly \$3,200, and—prior to considering transportation and capital funding—the state per-student base support level funding ranges from \$3,230 to over \$3,500.

2. Transportation Support Level (TSL)

This revenue is intended to cover a portion of total student transportation costs. The per-student transportation support is calculated for each district according to the average approved daily route miles multiplied by a state support level per mile, which is generally either \$1.65 or \$2.03, multiplied by 175 days.¹⁸ Additional amounts are then added to account for handicapped student transportation, activity trip

miles, and student reimbursement for bus passes or tokens.

For the purposes of this analysis, only the portion of the per-student transportation support that could be reasonably attributed to an average student, without special needs on regular school days, is included in the funding analysis. In fiscal year 2003, the per-student transportation support ranged from as little as \$80.61 per student in the Isaac Elementary district to as much as \$13,400 per student for five students in the Champie Elementary district. Generally speaking, small, isolated districts have much higher average route miles per student and, thus, much higher requirements for transportation funding per student.¹⁹ Overall, however, about 82 percent of the districts had average per-student transportation revenue that was less than \$1,000 per student. For this analysis, a minimum per-student transportation funding amount of \$289 will be used, which represents funding for a student who is transported one mile daily.

In addition to the per-student transportation support level, a Transportation Revenue Control Limit (TRCL) is calculated for each district. In general, this limit is the prior year's limit plus any increase in the required per-student transportation support between the previous year's calculation and the current year's calculation. In all cases, the Transportation Support Limit, which is based on student data, was lower than the Transportation Revenue Control Limit. The District Support Level (DSL) is calculated by adding the

Base Support Level funding amount to the Transportation Support Level funding amount for each district. The Revenue Control Limit (RCL) is determined by adding the Base Support Level funding amount to the Transportation Revenue Control Limit for each district. Because the state base equalization formula uses the lower of the two, this analysis considers only the required per-student Transportation Support Level funding amount, and, therefore, the District Support Level.

Adding the minimum per-student transportation support amount of \$289 to the minimum per-student weighted base support level funding amounts identified above, the state requires the following combined base support level and transportation funding:

- \$3,396 for K-3 students + \$289 Transportation Support Level = \$3,685
- \$3,229 for elementary students in grades four through eight + \$289 Transportation Support Level = \$3,518
- \$3,535 for high school students + \$289 Transportation Support Level = \$3,824

The following two sections treat the additional minimum per-student funding for capital costs, including general facilities, operations, desks, and textbooks.

3. Capital Outlay Revenue Limit (CORL)

This funding can be used to cover

building costs, but can also be used for general maintenance and operations expenses. The amount spent per student depends on the school district's size, but it generally varies between \$225 and \$329 per student. The per-student amount can be multiplied by a Growth Factor if a district's actual student count has increased by at least five percent between the prior year and the current year.²⁰ In fiscal year 2003, 65 of the 218 regular public school districts qualified for a Growth Factor increase, meaning that the per-student building support funding amounts are generally higher than the minimum in these districts. Finally, to cover the cost of textbooks, \$69.80 is added to the Capital Outlay Revenue Limit funding amount for each high school student.

Adding the minimum per-student building funding amount of \$225 to the combined minimum per-student weighted base support level and minimum per-student transportation funding amounts identified above, the state requires the following combined base support level, transportation, and general building funding per student:

- \$3,685 for K-3 students + \$225 Capital Outlay Revenue Limit = \$3,910
- \$3,518 for elementary students in grades four through eight + \$225 Capital Outlay Revenue Limit = \$3,743
- \$3,824 for high school students + \$225 Capital Outlay Revenue Limit + \$69.80 for textbooks = \$4,119

Thus, state funding to educate, transport, and cover general capital costs for an Arizona public school student conservatively ranges between roughly \$3,900 and \$4,100. The Revenue Control Limit, along with the Capital Outlay Revenue Limit funding amount, establish a district's Maintenance and Operations (M&O) expenditure limit.²¹

- \$3,910 for K-3 students + \$225 Soft Capital Allocation = \$4,135
- \$3,743 for elementary students in grades four through eight + \$225 Soft Capital Allocation = \$3,968
- \$4,119 for high school students + \$225 Soft Capital Allocation = \$4,344

4. Soft Capital Allocation (SCA)

Although the vast majority of Maintenance and Operations funding covers teacher salaries and benefits, Soft Capital Allocation funding pays for expenses such as desks or textbooks, which are neither capital nor consumable expenses. Like the building support, the school supplies support is calculated by multiplying the student count by a predetermined amount per student that varies according to district size, from \$225 to \$270.

Combining the amounts from the four funding categories described above results in the minimum per-student base equalization funding the state requires a school district to include in its budget. Adding the minimum per-student school supplies funding amount of \$225 per student to the combined minimum per-student weighted base support level funding, minimum per-student transportation, and minimum per-student building amounts identified above results in the following minimum per-student funding figures:

Thus, the minimum base equalization funding tied to a typical student in an Arizona public school to cover basic operations, transportation, and associated capital costs amounts to between roughly \$4,000 and \$4,350.

The funding figures above illustrate how each revenue category builds upon the previous ones to arrive at the state's minimum base equalization per-student funding amount. In reality, the weighted per-student base funding is higher because many students attend schools in districts that are small and/or are located in rural areas. Moreover, students may qualify for any number of additional Group B weights that reflect their special educational needs. The Teacher Experience Index and capital funding growth rate adjustment also increase the state base equalization amount.²² However, it is important to keep in mind that in general, the base equalization funding that the state requires for students represents approximately half of a district's total education funding. Districts also receive non-equalized local, county, state, and federal funding that is not based on the number of students.

Thus, the minimum base equalization funding tied to a typical student in an Arizona public school to cover basic operations, transportation, and associated capital costs amounts to between roughly \$4,000 and \$4,350.

Per-Student Base Equalization Funding: Determining State and Local Contributions

The local contribution to per-student funding is calculated once the base per-student funding amounts the state requires have been determined by using the weighted base funding formulas for school districts' characteristics and those of their student populations, as described in the previous section. Localities differ in their ability to raise revenue through property taxes. To eliminate the disadvantage to low-property value districts, a uniform qualifying tax rate (QTR) is applied to the total net assessed value (NAV) of the property in each district. The result is the local contribution, or the amount of the total required base equalization funding that the state expects the local district to contribute. The tax rate is roughly 2.0 percent to 2.5 percent of the district's total property values for elementary or high school students. Localities with school districts that have students in both categories are expected to contribute between 2.0 percent and 2.5 percent of their property values to each group, or 4.0 percent to 4.5 percent total. Once the required local contribution has been determined, the state funds the difference in the form of equalization assistance.

Equalization funding from the state is intended to ensure that all districts reach the required minimum student funding it sets based on the four revenue categories described in the previous section. Thirty of the 218 regular public

school districts included in this analysis, which exclude accommodation or technical districts, have sufficient property values to raise the total required minimum student funding and, thus, do not receive any equalization assistance from the state.²³ The remaining 188 school districts do receive varying levels of equalization funding from the state.

Thus far, the study has identified the four revenue categories that determine the minimum per-student funding for the three levels of students in the Arizona public K-12 system. It has also provided minimum funding amounts for typical Arizona public school students and described how the state and localities work together to meet those minimum funding amounts. The following section examines the minimum base equalization funding that students receive across the state.

Minimum State Base Equalization Funding Across Arizona

Clearly, the base equalization funding the state requires varies somewhat for each district throughout the state of Arizona, depending on the district's characteristics and those of its students. However, based on fiscal year 2003 data, the weighted average state base equalization funding per student is \$4,394 for K-3 students, \$4,221 for elementary students in grades four through eight, and \$4,604 for high school students.²⁴

Again, it should be noted that these averages represent about half of the total

It is important to keep in mind that in general, the base equalization funding that the state requires for students represents approximately half of a district's total education funding. Districts also receive non-equalized local, county, state, and federal funding that is not based on the number of students.

In all 15 counties, the elementary per-student state base equalization funding is over \$4,000. While \$4,000 could be a reasonable amount for K-12 education grants to offer elementary students across the state, a separate Goldwater Institute analysis suggests that \$3,500 corresponds to the average elementary private school tuition charged in Arizona.

per-student revenue for that year. In fact, the average non-equalized base support funding for school districts during fiscal year 2003 was \$4,309 per student, resulting in average total spending per student of between \$8,500 and \$9,000. Considering only the variable portion of total per-student funding—the base equalization funding that follows the students—it would appear reasonable that offering elementary students education grants of \$3,500 and high school students education grants of \$4,500 to attend private schools would result in net savings to the state.

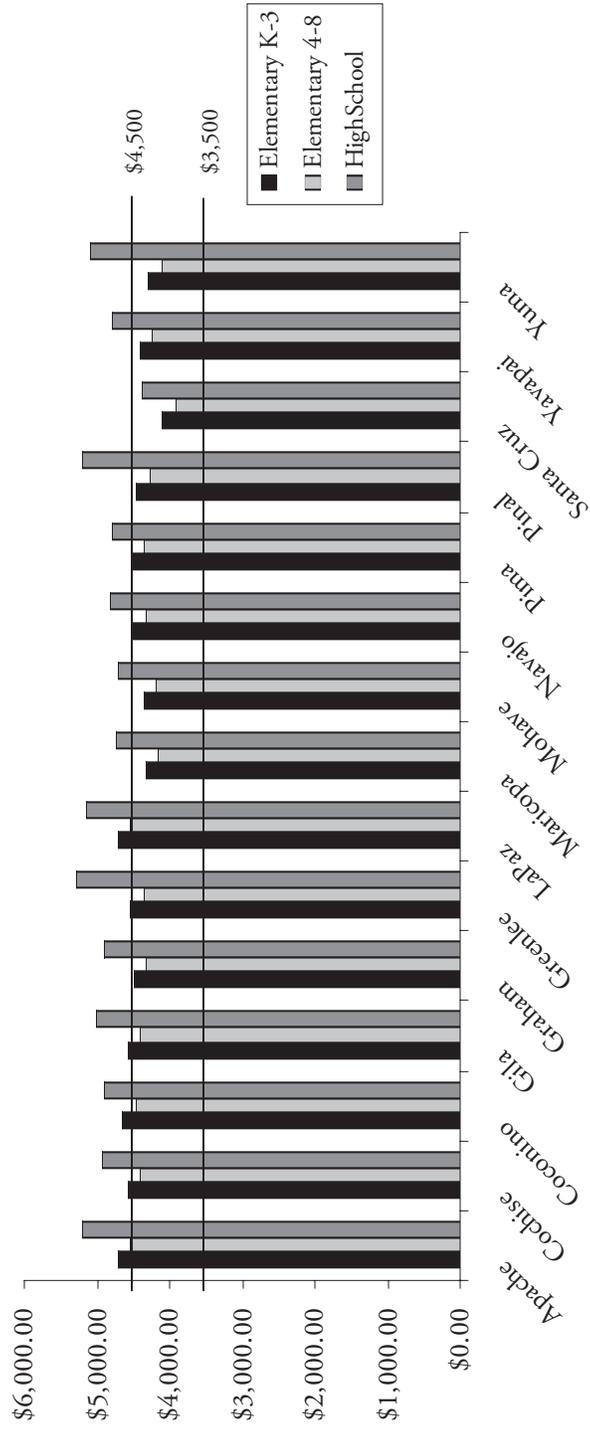
However, those statewide averages encompass a range of differences. For example, the highest state base equalization funding for elementary students was \$18,056 for the Champie Elementary School District, driven, at least in part, by high transportation costs. The lowest base student amount was \$3,760 for the Isaac Elementary School District. The high school base student equalization amounts ranged between \$4,195 for Nogales Unified School District to \$7,378 for Patagonia Union High School District.²⁵ As was previously mentioned, small, rural districts have much higher per-student funding requirements due to high transportation costs. To provide a more complete portrait of the variation in per-student base equalization funding, the following section examines each of Arizona's 15 counties in greater detail, as well as the per-student state base equalization funding according to district size and community type.

Readers may also refer to the database accompanying this study, which is available on the Goldwater Institute website at www.goldwaterinstitute.org, to review per-student expenditures in their own school districts by student grade level and disability category. For all 218 regular public school districts, the database displays two per-pupil funding figures: the per-student state base equalization funding and the total per-student funding, which combines both the equalized per-student state base funding and the per-student portion of non-equalized district funding. The state base funding is the variable funding amount tied to students, which is based on student counts. The amount in excess of that figure is the fixed district funding that is not based on student counts and remains with the district even if students transfer to other schools outside of it.

Arizona's public school districts are divided into fifteen counties. These fifteen counties have varying per-student base equalization funding requirements, as shown in Figure 1.

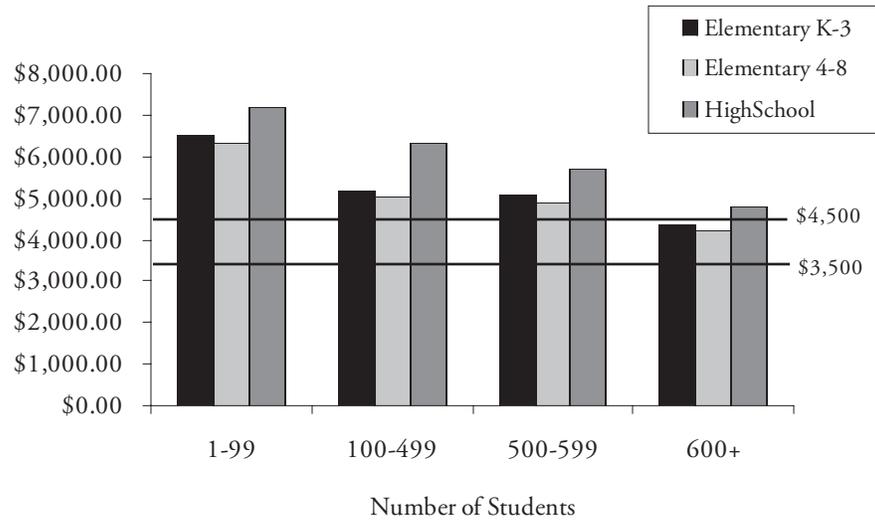
Figure 1 indicates the weighted average per-student base equalization funding the state requires by county. In all 15 counties, the elementary per-student state base equalization funding is over \$4,000. While \$4,000 could be a reasonable amount for K-12 education grants to offer elementary students across the state, a separate Goldwater Institute analysis suggests that \$3,500 corresponds to the average elementary private school tuition charged in

Figure 1: Variable State Base Equalization Funding Per Student By County (Group A Weights Only)



Source: Arizona Department of Education.

Figure 2: Variable State Base Equalization Funding Per Student by District Size (Group A Weights Only)



Source: Arizona Department of Education.

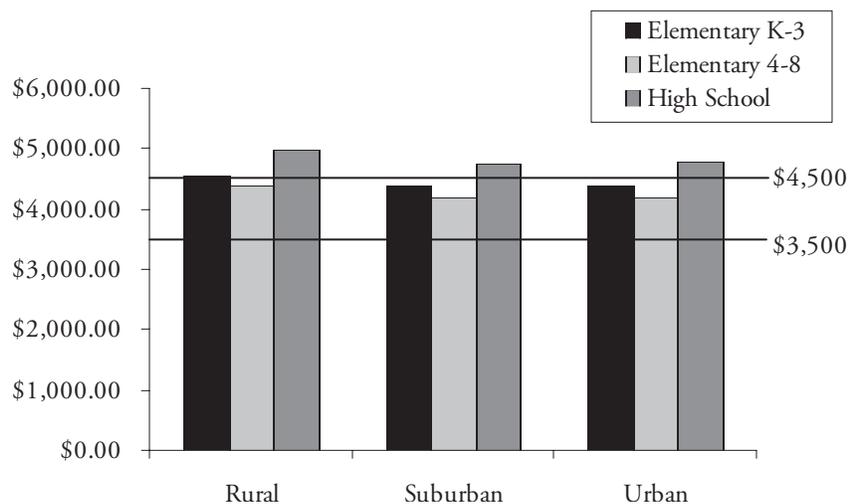
Arizona.²⁶ Similarly, in all counties an education grant of \$4,500 for high school students would be less than the weighted average state base equalization funding. The exception is Santa Cruz County, where the weighted average state base equalization funding is \$4,300. The high school education grants are larger because students typically cost more to educate in the more advanced high school grades. Figure 2 shows the average state equalization base funding requirements per student by district size and community type.

As Figure 2 indicates, the weighted average per-student state base equalization funding is highest for those

districts with the smallest membership. In addition to the higher Group A weights for smaller size, these districts also tend to be rural and isolated, resulting in higher transportation funding needs. This analysis uses a weighted average to reduce the impact of these districts, which unduly influence a straight average. Regardless, in all cases the per-student base equalization amounts are higher than the suggested education grant amounts, without any consideration of the remaining \$4,300 per-student portion of non-equalization district funding.

Finally, considering state per-student base equalization funding by district type reveals that, as expected, rural

Figure 3: Variable State Base Equalization Funding Per Student by District Type (Group A Weights Only)



Source: Arizona Department of Education.

districts have the highest minimum funding requirements across all three grade levels, although the differences are slight. Again, Figure 3 shows that there is not a substantial difference between the grade levels for any of the community-type categories and that districts are required, on average, to appropriate a minimum of between \$4,000 and \$5,000 per student.

A comparison of the average per-student minimum funding requirements for elementary and high school students by county, district size, and district type show that in all categories an education grant of \$3,500 for elementary students—regardless of grade—would result in net savings to the state and local districts. Similarly, an education grant of \$4,500 for high school students is lower

than the required state base equalization funding in nearly all of the scenarios. Because these weighted averages represent minimum amounts, without consideration of special needs status, the net savings indicated here are conservative.

Based on analyses from the previous two sections, it appears feasible to set a K-12 education grant amount that both reflects the statewide per-student minimum state base equalization funding for elementary and high school students and accounts for the variability in student funding. The difficulty, however, is determining which students, in terms of districts or grade level, would be the most likely to take advantage of such a program. This requires an assessment of the elasticity of demand

A comparison of the average per-student minimum funding requirements for elementary and high school students by county, district size, and district type show that in all categories an education grant of \$3,500 for elementary students—regardless of grade—would result in net savings to the state and local districts.

for private education, an analysis that is beyond the scope of this study.

However, it is possible to determine a rough approximation of the total savings to the state and local districts using these education grant amounts, presuming a level demand of five percent of the total average daily membership in all districts. Five percent is a reasonable figure because private school enrollment tends to fluctuate between five percent and 10 percent of Arizona's total public school enrollment.²⁷ Under such a hypothetical scenario, a program that offered education grants of \$3,500 to elementary students and \$4,500 to high school students would have resulted in a net savings of \$32.4 million to the state and local districts in fiscal year 2003. Under this scenario, school districts would have approximately 40,000 fewer students, yet funding for nearly half of Arizona's school districts would have remained unchanged. Funding for the other half would have been reduced by less than one percent.

A program that offered education grants of \$3,500 to elementary students and \$4,500 to high school students would have resulted in a net savings of \$32.4 million to the state and local districts in fiscal year 2003.

Advantages of a K-12 Education Grant System of Education Finance

Although a critique of the current Arizona public education finance system is not a goal of this study, several difficulties arose during the research process that warrant consideration. A K-12 grant system of education finance would have several advantages over the

current funding system, including increased transparency, simplicity, and improved accountability.

Transparency

Arizona's current education finance system is complex and uncoordinated, meaning parents, taxpayers, and policymakers do not have a clear picture of what is spent to educate public school students. Currently, accountability in the Arizona Department of Education relies upon several different accounting systems that often do not coordinate. The Uniform System of Financial Reporting was developed by the Arizona Department of Education and the Auditor General's office to give school district administrators a consistent system for budgeting and expense reporting. The data from each district are entered via a lengthy set of reports in the Student Accountability Information System. Those reports do not coordinate directly with the reports required under the Uniform System of Financial Reporting, and they are not as detailed.

In addition to the required Uniform System of Financial Reporting and Student Accountability Information System reports, each district superintendent submits data for the State Superintendent's Annual Financial Report. Although reports based on those self-reported data are made available to parents, they are not audited, which casts doubt on their accuracy. For example, several districts list average daily memberships of zero students in the Superintendent's Annual Financial

Report, even though they receive state funding. In contrast, only one district, Eagle Elementary, lists an average daily membership (ADM) of zero in the Student Accountability Information System. It is likely that such districts are small and did not conduct a student count in time to complete the required report. However, the smaller the district, the easier it should be to obtain an accurate, timely student count.

The fact that the Superintendent's Annual Financial Report is published listing fully funded school districts with no students is cause for serious concern and undermines its credibility, especially since this is the report policymakers rely on when drafting education legislation. At a minimum, it should contain complete information, especially for such basic data as how many students a district enrolls. To inform sound education policy, the Superintendent's Annual Financial Report should require that school districts submit only audited data or risk losing state funding.

This analysis used the Superintendent's Annual Financial Report, which provides the source of revenue for each of the aggregated local, county, state, and federal expenditure categories for districts, and Student Accountability Information System budget data, which reports at a finer level of detail (although not as detailed as the Uniform System of Financial Reporting). Due to the differences between the systems, estimates had to be generated in some cases.²⁸ This lack of coordination poses a significant

accountability problem for parents who wish to compare district revenue and spending on their children.

K-12 education grants would enable parents to control their children's education dollars and would require improved accountability because parents would have a vested interest in locating and understanding both financial and test score data. An education grant system of school finance would improve transparency because funding would follow students in real time rather than on a prior-year basis. It would also help parents, taxpayers, and policymakers make informed judgments about how much state variable funding is dedicated to students and how much local, county, state, and federal fixed funding remains with school districts. School districts cannot control how much state base equalization funding is allocated to students, but they can control their local, county, state, and federal non-equalized expenditures.²⁹ Although this analysis focuses on state base equalization funding that follows students, the database shows that in many cases districts receive and keep a larger portion of per-student non-equalization funding than students receive in state base equalization funding. Those instances should concern policymakers and warrant further study.

Simplicity

A second concern in Arizona public education financing is establishing a simple system to promote flexibility. The

One-size-fits-all approach to education finance is losing favor as it becomes increasingly apparent that different types of students bring different strengths and needs to their schools. Education funding should reflect those differences.

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one-size-fits-all approach to education finance is losing favor as it becomes increasingly apparent that different types of students bring different strengths and needs to their schools. Education funding should reflect those differences. In Arizona, the total assessed property in the district—rather than the actual cost of educating a student—still determines the local contribution to per-student state base equalization funding. Offering education grants would require the state to determine the portion of student funding that should reasonably follow students, not remain tied to the value of their parents' homes.

A K-12 education grant system of education finance, based on the actual cost of educating students, would also help contain school districts' non-equalized local, county, state, and federal spending, helping assure that district administrative spending does not compete with student spending. Moreover, a grant system of education finance would not require multiple, complex annual reports. Just as school tuition organizations are currently required to do, districts or schools would have to submit an annual report detailing how many students they enrolled, the amounts of their education grants, and how they spent those funds. A single, straightforward report would require fewer administrative personnel, less time, and much less paperwork. It would also be more cost-efficient.

Accountability

With its transparency and simplicity,

a K-12 education grant system enables parents to make informed decisions about their children's education options. Under a grant funding system, complexity would no longer conceal schools' costs or any discrepancies between revenues and expenditures. Schools would be accountable for how—and how much—they spend. A grant system signals a fundamental shift from system-centered funding to student-centered funding. This means schools must meet the needs of students or risk losing them and their education dollars to other schools that will get the job done.

A student-centered grant funding system encourages responsiveness and innovation among schools, and the competition for students introduced under such a system can be like a tide that lifts all boats.³⁰ Most important, letting parents control their children's education dollars gives them real power to vote with their feet for any school they choose, not just public schools. An education grant finance system would arm parents with the knowledge they need to make informed educational decisions and give them the buying power to act on that information.

Concerns About a K-12 Grant-Based System of Education Finance

This study identifies the minimum base funding by student and district type in order to determine the amount that

the state of Arizona has determined is tied to each child in the public school system. In addition, it provides an accurate assessment of the fiscal impact of a K-12 education grant program for a reasonable tuition payment with a per-student savings projection based on the most current available data. Everyone can agree that per-student funding should more accurately reflect the real cost of educating public school students. The state attempts to do just that by establishing equalized base funding amounts for students. Ideally, those per-student equalized base formula dollar amounts set by the state would be an accurate reflection of the true variable cost of educating students. In reality, those student-funding amounts are still based on the property values of their parents' homes and their determination is subject to external forces, such as political pressure.

A K-12 education grant system of school finance would help reconcile education costs and spending, as well as improve transparency, simplicity, and accountability. However, there are concerns about adopting such a system. The most common concerns are addressed below.

1. There is no consensus about how much to spend on educating students.

The National Education Association claims Arizona spends \$5,009 per student, and *Education Week's* annual *Quality Counts* ranking says Arizona spends \$5,487 per student.³¹ With so many conflicting numbers, it is difficult

for policymakers and taxpayers to know how much is being spent to educate students in Arizona public schools. As the previous analysis shows, per-student funding amounts vary according to the type of students, the size of the districts they attend, and where those school districts are located. However, such variability does not preclude setting a grant amount for students to attend private schools or projecting the fiscal impact to school districts. In fact, the state has established the per-student base equalization funding it thinks should follow students when they enter the public school system, when they leave it, or when they change districts within the state. This funding is intended to cover basic operations, transportation and associated capital costs.³²

This analysis finds the average state base equalization funding per student is \$4,394 for K-3 students, \$4,221 for elementary students in grades four through eight, and \$4,604 for high school students. Offering parents elementary education grants worth \$3,500 and high school grants worth \$4,500 would be less than the per-student average state base equalization funding.³³ Moreover, a previous Goldwater Institute analysis of Arizona private school tuition suggests those amounts align with average private school tuition amounts.³⁴

2. Allowing students to use education funding to attend private schools diverts money from public school districts.

Another common objection to

implementing programs that allow students to use education funding to transfer to private schools is that these programs would take money away from public school districts. For example, the Arizona Education Association, the state's largest teachers union, claims, "Diverting funds from public schools to religious ones hurts public schools and the children who attend them."³⁵ Leaving aside the fact that not all private schools are religious, under the current school funding system, state equalized base funding is already tied to students. Moreover, it does not matter whether a public school student transfers to a district, charter, or private school. The student's prior public school district loses that student's state equalized base funding regardless of what new school he or she attends.

For example, if 100 fourth grade students with no disabilities transferred from the Mesa Unified School District to the Scottsdale Unified School District, Mesa would lose \$450,000 (\$4,500 per student) in state base equalized funding tied to those students. If those same 100 students used education grants worth \$3,500 to transfer to private schools, Mesa Unified would still lose \$450,000, but because the elementary grant amounts suggested in this analysis are \$1,000 less than the equalized per-student funding the state currently provides, the state would realize a net savings of \$100,000, the Mesa Unified School District would no longer have the expense of educating those 100 students, and it would keep \$360,000 (\$3,600 per student) in non-

equalized district funding to distribute among a smaller number of students.³⁶

In fact, the National School Boards Association, the national affiliate of the Arizona School Boards Association and a leading opponent of letting parents use education grants, acknowledges that a "school district would realize significant savings" if "sizeable numbers of students from a single grade in a single school or from a school with small pupil population transferred out." Under such a scenario, "the school district could cut costs by reducing staff and perhaps expenditures for building maintenance and school buses."³⁷

3. When public school students transfer, districts still have overhead costs.

This analysis focuses on the state base equalization funding the state determines should follow students and suggests a K-12 education grant model could be developed based on those funding amounts. Moreover, with the accompanying database synthesizing Arizona Department of Education financial data, it is possible to determine the fiscal impact to school districts when students leave. If students transfer out of a public school district, that district loses a student's state base equalization funding, as well as the cost of educating that child. However, opponents counter with the argument that district overhead costs remain. The remarks of former Milwaukee Public Schools Superintendent Spence Korte typify that concern: "We don't heat the building two degrees less because a few kids went

to a choice program.”³⁸

Of course, parents and taxpayers do not send their children to public schools so districts can save money on their utility bills. Moreover, in Arizona, public school districts cope with the loss of students each year.³⁹ Under existing policy, Arizona parents exercise public school choice through open enrollment, which lets them send their children to any public school district no matter where they live, or by enrolling their children in any of nearly 500 charter schools, which are privately operated public schools.

However, Arizona public school districts also receive local, county, state, and federal non-equalized funding that is not based on the number of students. If students transfer out of a public school district, the district keeps these students’ portion of non-equalized funding to distribute among a smaller number of students. This analysis finds that on average, districts receive \$4,309 in non-equalized funding on average per student. This is the average portion of per-student funding districts keep even if students leave the district.

However, the accompanying database shows that the actual per-student portions of non-equalized funding public school districts keep after children leave vary considerably. For instance, a fourth grader with no disabilities receives between \$4,000 and \$4,500 in variable state equalized base funding to attend non-rural, non-isolated school districts in Arizona.

However, tracing what some of those districts actually spend in total to educate the same fourth grader is instructive. Table 2 summarizes those total expenditure amounts. The amounts in excess of the state equalized base funding represent the fixed, non-equalized local, county, state, and federal funding districts keep if that fourth grade student leaves the district.

The fourth grader’s base equalizing funding, the \$4,000 to \$4,500 variable amount the state has determined is tied to students when he or she transfers districts, varies slightly depending on whether the district is in or near a large or medium-sized city, but each school district listed has at least 600 students. However, public school districts spend significantly different amounts to educate the same fourth grader—anywhere from \$7,400 to \$13,500 in total.

As mentioned before in the section treating accountability, under Arizona’s existing school finance system, many public school districts keep larger non-equalized portions of education funding than students get in state base equalization funding. For example, the portions districts keep of the fourth grader’s non-equalized funding if he or she transfers range from \$3,200 for the Paradise Valley Unified School District, which is less than the fourth grader’s state base funding, to \$9,200 for the Scottsdale Unified School District, which is more than twice the fourth grader’s state base funding.

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Table 2: Variable Student Funding and Fixed District Funding Compared

Non-isolated, non-rural school districts	Total district spending on a 4th grader, no disabilities (Equalized + non-equalized)(\$)	State equalized base funding tied to student (variable)(\$)	Non-equalized district funding: district keeps if student leaves (fixed)(\$)
Scottsdale USD*	13,488	4,297	9,191
Florence USD	13,092	4,110	8,982
Coolidge USD	12,831	4,434	7,947
Dysart USD	12,800	4,345	8,455
Phoenix ESD*	12,618	3,860	8,758
Tuba City ESD	12,264	4,096	8,168
Fountain Hills USD	11,835	3,854	7,981
Wilson Elementary*	10,832	3,763	7,069
Tolleson ESD	10,309	4,041	6,268
Sedona-Oak Creek Joint USD	10,137	4,400	5,737
Cave Creek USD	10,084	4,362	5,722
Higley USD	9,995	4,089	5,906
Peoria Unified	9,599	4,339	5,260
Chandler USD	9,545	4,265	5,280
Litchfield ESD	8,584	4,120	4,464
Laveen ESD	8,339	3,946	3,393
Tucson USD*	8,139	4,482	3,657
Somerton ESD	8,109	3,963	4,146
Mesa USD*	8,100	4,477	3,623
Tanque Verde ESD	7,958	4,133	3,835
Paradise Valley USD	7,412	4,219	3,193

Source: Arizona Department of Education.

Notes:

1. USD = Unified School District; ESD = Elementary School District.
2. All school districts listed have student populations of at least 600 students.
3. School district community types include: mid-size city, large central city, urban fringe of mid-size city, and urban fringe of large city.
4. *Asterisk indicates school district is under a desegregation court order or U.S. Department of Education Office of Civil Rights agreement.⁴⁰

When students leave Arizona public school districts, sizeable portions of non-equalized district funding remain to be distributed among a smaller student population. That helps explain why this analysis finds that if five percent of public school students used education grants worth \$3,500 for elementary students and \$4,500 for high school students, the state and local districts would have realized a net savings of over \$32 million in fiscal year 2003. Funding for half of the state's school districts would have been unaffected, and funding for the other half would have been reduced by less than one percent. This indicates that funding for Arizona public school districts would not be significantly impacted by a K-12 education grant program that allows parents to control their children's share of education dollars.⁴¹

Thus, contrary to concerns surrounding a K-12 grant-based system of education finance, it is possible to set grant amounts based on the current variable state base equalization funding tied to students. Knowing both the per-student state base equalization funding amounts and the per-student portions of district non-equalized local, county, state, and federal funding, the fiscal impact to districts when students leave is negligible under the current finance system. Under the hypothetical K-12 education grant system proposed in this analysis, in which grant amounts are set below current state equalized base funding amounts for students, the impact to school districts would still be negligible and the state and local

districts would realize a net savings of over \$32 million.

Conclusion

Twenty years ago, TurboTax revolutionized income tax preparation.⁴² This analysis and accompanying database help bring the same simplicity, transparency, and accuracy to Arizona education finance by presenting complex data from the Department of Education's multiple accounting systems in a clear and understandable way. This analysis finds that average per-student state base equalization funding to cover basic operations, transportation, and associated capital costs ranges between \$4,200 and \$4,600. This is the amount tied to students according to the state. However, this is only half of the equation. Omitted from most published reports is the additional fixed local, county, state, and federal non-equalized school district funding, which is not based on student counts. This is the portion of per-student funding that remains with districts when students leave. On average that portion amounts to \$4,309 per student. Thus, average total spending for an Arizona public school student ranges between \$8,500 and \$9,000. Those figures are conservative because they apply to students with no disabilities in non-rural, non-isolated school districts.

This study represents the most comprehensive analysis available of state per-student expenditures for all 218

Average total spending for an Arizona public school student ranges between \$8,500 and \$9,000. Those figures are conservative because they apply to students with no disabilities in non-rural, non-isolated school districts.

Knowing how much education funding follows students and how much stays with districts, policymakers now have meaningful figures to assess the fiscal impact on school districts and the state when students leave their current district under existing state base funding formulas.

regular Arizona public school districts based on data from the Department of Education's multiple accounting systems: the Uniform System of Financial Reporting (USFR), the Student Accountability Information System (SAIS), and the State Superintendent's Annual Financial Report (SAFR). The accompanying database compiles those data, representing the most accurate financial information available, and it will be updated as new information becomes available. With it, policymakers and the public can readily access the most accurate per-student expenditures broken down by student and district type according to local, county, state, and federal funding categories. This provides an important check on the system because funding figures published in newspapers and reports can now be easily accessed and verified by the public for accuracy.

Knowing how much education funding follows students and how much stays with districts, policymakers now have meaningful figures to assess the fiscal impact on school districts and the state when students leave their current district under existing state base funding formulas. For instance, elementary education grants worth \$3,500 and high school education grants worth \$4,500 are less than the minimum per-student equalized base funding amount the state has determined is tied to students.⁴³ If five percent of the K-12 student population, roughly 40,000 students, were given education grants in fiscal year 2003, the state and local districts could

have realized a net savings of \$32 million. Funding for half of the school districts would have remained unchanged, and funding for the other half would have decreased by less than one percent.

Under Arizona's current education finance system, the state has determined how much education funding is tied to students when they enter the public school system, when they leave it, or when they change districts within the state. However, despite attempts to equalize student funding, expenditures do not reflect the true costs of educating children. Funding is still based on the values of their parents' homes, and in many cases the districts' non-equalized portions of local, county, state, and federal non-equalized funding exceeds the students' equalized base funding. Allowing parents to control their children's education dollars would help improve transparency, simplicity, and accountability in Arizona education finance. Most important, letting parents control their children's education dollars arms them with the knowledge they need to make informed educational decisions and gives them the buying power to act on that information.

NOTES

1. See Scott D. Cook, co-founder of Intuit, in “The Forbes 400: The Richest Americans 2003,” no. 244, at www.forbes.com/finance/lists/54/2003/LIR.jhtml?passListId=54&passYear=2003&passListType=Person&uniqueId=J8AI&datatype=Person (December 19, 2004).
2. National Education Association, *Rankings & Estimates: Rankings of the State 2003 and Estimates of School Statistics 2004*, Table H-9, May 2004, p. 54, at www.nea.org/edstats/images/04rankings.pdf (December 19, 2004). Expenditure figures are based on the 2001-2002 academic year data. However, the NEA also reported that per-student revenues in Arizona were \$7,614 based on 2003-2004 academic year data. See *Ibid.*, Table F-4, p. 40. See also *Education Week on the Web*, “Resources: Adequacy,” in *Quality Counts 2003* at counts.edweek.org/sreports/qc03/reports/resources-t1.cfm (December 19, 2004). The 2003 ranking uses more current data than its 2004 ranking. The \$5,487 figure used 2002 financial data. See *Education Week on the Web*, “Sources and Notes: Resources: Adequacy,” January 9, 2003, at counts.edweek.org/sreports/qc03/templates/article.cfm?slug=17sos_sources.h22#adeq (December 19, 2004). *Education Week's* 2004 *Quality Counts* ranking lists Arizona's per-student spending as \$5,319. However, it used 2000-2001 financial data from the U.S. Department of Education, National Center for Education, *Statistics, Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2000-01*, June 2003. Figures were adjusted using the NCES Geographic Cost of Education Index. See *Education Week on the Web*, “Sources and Notes: Resources: Adequacy,” January 8, 2004, at counts.edweek.org/sreports/qc04/article.cfm?slug=17sos_sources.h23#adeq (December 19, 2004).
3. For purposes of this analysis, the term “variable” refers to education funding that is determined by the number of students in a district, and the term “fixed” refers to education funding that is not determined by the number of students in a district.
4. As explained below, in the study the base funding categories do not match the source of revenue/expenditure categories. Thus, this study uses total revenue for each district and subtracts the reported equalization base revenue to determine the non-equalization base revenue.
5. There is another category of state funding, generated by a 0.6 percent sales tax, which follows a student to his or her district. However, we do not include that portion in the equalization funding analysis, as it does not affect the overall level of state funding, only the mix between districts. Arizona voters approved this sales tax in November 2000 through passage of Proposition 301. See also nn. 18 and 32. State student funding and local, county, state, and federal district funding categories are not “either/or categories,” as the four

categories of base student funding are also dispersed within those district funding categories. When compiling the database, Susan Aud was never able to locate a document that explains the mapping of one to the other. However, some of the equalization base funding is found in the M&O budget.

6. This savings projection assumes that local funding—based on property values and tax rates—would not change. Federal dollars would presumably, but not necessarily, follow the students out of the system.

7. Michael Hunter and Mary Gifford, “School Finance Primer: A Taxpayer’s Guide to School Finance,” Goldwater Institute Arizona Education Analysis, February 2000, at www.goldwaterinstitute.org/pdf/materials/100.pdf (December 19, 2004).

8. “It wasn’t until 1980 that inequities in taxation and spending among school districts were targeted in earnest. That same year, property tax reforms took place in Arizona, placing limits on government’s ability to levy property taxes. Similar limits were not placed on school district levies however. Instead, the legislature passed laws intended to reduce disparities in tax rates, equalize per-pupil spending for maintenance and operations (M&O), and decrease reliance on local property taxes for schools. Although school districts were allowed the local prerogative of voter-approved budget overrides paid for out of secondary taxes, primary taxes would be levied through

an equalized, qualifying tax rate (QTR), regardless of property values. The state adopted a ‘foundation’ system where spending needs are determined by a weighted student count and other variables to account for differing student needs. The result of these calculations is an ‘equalization base’ of guaranteed funding. That base serves as an equalizing spending limit, of sorts, funded by local property tax levies and state appropriations. The legislature expressed their intent in law with the following words:

The legislature intends by this act to increase the authority and responsibility of local school boards in determining how revenues will be utilized. Beginning in the 1980-81 fiscal year disparities in operational revenues among districts will be reduced on an annual basis until complete equalization is reached in the 1985-86 fiscal year.”

See Hunter and Gifford, “School Finance Primer,” 5. More recently, as a result of the 1994 U.S. Supreme Court decision *Roosevelt v. Bishop*, school capital financing can no longer rely on unequal property taxes, which are used to pay for bond indebtedness. In 1998, Arizona equalized school capital financing through legislation called Students FIRST (Fair and Immediate Resources for Students Today).

9. For clarity, throughout this report standard acronyms are provided, but full agency names and funding categories are

used. The SAFR data used is from the District Detail Reports. The SAIS data is from the APOR 55-1, "Basic Calculations for Equalization Assistance," Arizona Department of Education, Memo # 02-055, May 14, 2002 at: www.ade.az.gov/schoolfinance/Memos/FY2001-2002/ (December 20, 2004). Additional detail was derived from SAIS BUDG25, "Expenditure Budget Report for Fiscal Year 2003," www.ade.az.gov/Budget/ReportsData/ReportsData.asp (December 20, 2004).

10. For example, because actual expenditures per district could not be located at the same level of detail as budgeted, the relationships between the budgeted expenditures by categories were used to approximate the actual expenditures for the same categories. In other words, if "Joint Vocation and Technology," as a Maintenance and Operations category, represented five percent of total M&O expenditures, it was then assumed that this category also represent five percent of the actual expenditures. This was necessary because actual expenditures are only reported at the level of "Maintenance and Operations."

11. See Hunter and Gifford, "School Finance Primer," for a complete explanation of the current financing system and its evolution.

12. Those revenues do not translate directly into expense categories. Although a district's share of the Classroom Site Fund revenue, generated through a state collected sales tax, is

dependent on the weighted number of students, that source of revenue was not included in this analysis because if a student leaves the public school system, total state revenue for this fund does not change, only the distribution between districts changes.

13. Districts can ask local voters to approve tax increases for categories outside its equalized expenditure limits. These include desegregation, excess utilities, adjacent ways, and dropout prevention programs. Even within a district's equalized expenditure limits, "[d]istricts can ask their voters to approve M&O overrides for up to 10 percent of the RCL. Similarly, districts can request CORL overrides and general obligation bonds for capital projects. These overrides and bonds are paid for through local secondary property taxes, which are for voter-approved property taxes. But a district cannot require this extra tax of their taxpayers. They can only request it. Voters decide these issues, not districts." For the adjustments and exception to the RCL, see Hunter and Gifford, "School Finance Primer," 11, 12-15.

14. This data was obtained from the SAIS data is from the APOR 55-1, "Basic Calculations for Equalization Assistance."

15. This data was predominately obtained from the SAIS data is from the APOR 55-1, "Basic Calculations for Equalization Assistance," Arizona Department of Education, Memo # 02-055, May 14, 2002, run on June 12,

2003. Data available at www.ade.az.gov/schoolfinance/Memos/FY2001-2002/ (December 20, 2004).

16. In terms of tying funding to differing educational spending needs, the less than 10 percent difference between elementary and high school students is a potential cause for concern.

17. For more detailed information, see Arizona Revised Statutes 15-941, "Teacher Experience Index; Computation; Definition," at www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/15/00941.htm&Title=15&DocType=ARS (December 19, 2004).

18. "Education 2000 (44th Legislature, 5th Special Session, Chapter 1) conditionally lengthened the minimum number of school days in the year from 175 to 180 through a five year phase-in process. Enacted through Proposition 301, which was passed by the voters in November 2000, the school year began increasing one day per year until FY 2005 and is funded through monies collected through the 0.6 percent increase in the transaction privilege tax authorized by Proposition 301." Arizona House of Representatives, H.B. 2100, at www.azleg.state.az.us/FormatDocument.asp?inDoc=/legtext/46leg/2r/summary/h%2Ehb2100%5F01%2D15%2D04%5Fed%2Edoc%2Ehtm&DocType=S (December 19, 2004).

19. Eight school districts received no per-student TSL funding from the state.

20. Growth Factors ranged from 0.0 to 2.195, with an average growth factor of 1.0167431. Only one district did not qualify for a growth factor increase.

21. For the adjustments and exception to the RCL, see Hunter and Gifford, "School Finance Primer."

22. Again, this index compensates school districts that hire teachers with more years of experience than the state average. The Teacher Experience Index weight can be as high as 1.1427, meaning all students in that district have a base funding amount that is more than 14 percent, or at least \$400, higher than similar students in other districts. However, districts with Teacher Experience Indices that are lower than the state average are not penalized. See Arizona Revised Statutes 15-941 for more detailed information, www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/15/00941.htm&Title=15&DocType=ARS (December 19, 2004).

23. There are 24 districts that do not receive equalization assistance from the state. However, because some of those districts do not receive elementary or high school funding, they are counted twice, resulting in 30 districts. Districts not receiving equalization assistance from the state are: Ash Fork Joint Unified, Bouse Elementary, Bicentennial Union High School, Cave Creek Unified, Chevelon Butte, Cochise Elementary, Continental Elementary, Dysart Unified, Fountain Hills Unified, Hackberry, Maricopa County Regional, Morenci Unified, Prescott Unified,

Riverside Elementary, Round Valley Unified, Saddle Mountain Unified, Scottsdale Unified, Sedona-Oak Creek Joint Unified, Seligman Unified, Sentinel Elementary, Williams Unified, Williamson Valley Elementary, Young Elementary, and Yucca Elementary.

24. In this case, the term “weighted average” is used to describe the method of calculating the average by multiplying each district’s average by its enrollment and dividing the total amount by the total enrollment.

25. Results for all 218 districts are available online at www.goldwaterinstitute.org. On the growth rate adjustment, See Arizona Revised Statutes 15-948, “Adjustment for Growth in Student Counts,” at www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/15/00948.htm&Title=15&DocType=ARS (December 19, 2004).

26. Vicki Murray and Ross Groen, “Survey of Arizona Private Schools: Tuition, Testing, and Curricula,” Goldwater Institute, Policy Report, January 5, 2005. On the constitutionality of a K-12 education grant system of education finance, see Clint Bolick, “School Vouchers: Constitutionally Permissible in Arizona,” Goldwater Institute Policy Brief, March 8, 2004, at www.goldwaterinstitute.org/pdf/materials/427.pdf (December 19, 2004).

27. Arizona’s private schools enroll about five percent of the state’s K-12

student population, roughly 44,060 children. That figure is taken from the 1999-2000 school year, the latest year for which data are available. Five percent is half the national average. See Stephen Broughman and Lenore Colaciello, *Private School Universe Survey: 1999-2000*, National Center for Education Statistics, Statistical Analysis Report, August 2001, Table 22, p. 26, at nces.ed.gov/pubs2001/2001330.pdf (December 19, 2004). Arizona public K-12 enrollment was 852,612 in the fall of 1999. The state’s combined public and private school enrollment was 896,672. On total K-12 public school enrollment, see Thomas D. Snyder and Charlene M. Hoffman, *Digest of Education Statistics, 2002*, National Center for Education Statistics, June 2003, Table 37, p. 51, at nces.ed.gov/programs/digest/d01/tables/PDF/table037.pdf (December 19, 2004). For the national average percentage of private school enrollments, see Barbara Holton, *A Brief Profile of America’s Private Schools*, National Center for Education Statistics, June 2003, p. 2, at nces.ed.gov/pubsearch/pubsinfo.asp?pubid=2003417 (December 19, 2004). As of 2002, 11 percent of K-12 students were enrolled in private schools nationwide. See Thomas D. Snyder and Charlene M. Hoffman, *Digest of Education Statistics 2002*, 1, at nces.ed.gov/pubs2003/2003060a.pdf (December 19, 2004).

28. As explained on p. 5 and in n. 9, the Arizona Department of Education’s Student Accountability Information

System and the Superintendent's Annual Financial Report do not precisely track each other. Consequently, student formula funding amounts were determined using data from the Student Accountability Information System, while district funding amounts, in particular the sources of revenue and the actual expenses by category, are derived from Superintendent's Annual Financial Report reports. For example, as actual expenditures per district could not be located at the same level of detail as budgeted, the relationships between the budgeted expenditures by categories were used to approximate the actual expenditures for the same categories. In other words, if "Joint Vocation and Technology," as a Maintenance and Operations category, represented five percent of total M&O expenditures, then it was assumed that this category also represented five percent of the actual expenditures. This was necessary because actual expenditures are only reported at the level of "Maintenance and Operations."

29. For example, districts' combined non-equalized expenditures increased 753 percent from fiscal year 1986. See Hunter and Gifford, "School Finance Primer," 11.

30. For example, see Caroline M. Hoxby, *School Choice and School Productivity (or Could School Choice be a Tide That Lifts All Boats?)*, National Bureau of Economic Research, Working Paper No. 8873, April 2002, at www.nber.org/papers.w8873 (December 19, 2004).

31. National Education Association, "Rankings & Estimates: Rankings of the State 2003 and Estimates of School Statistics 2004," May 2004, Table H-9, p. 54, at www.nea.org/edstats/images/04rankings.pdf (December 19, 2004). Expenditure figures are based on 2001-2002 academic year data. However, the NEA also reported that per-student revenues in Arizona were \$7,614 based on 2003-2004 academic year data. See *Ibid.*, Table F-4, p. 40. See also *Education Week on the Web, Quality Counts 2003*. The 2003 ranking uses more current data than its 2004 ranking. The \$5,487 figure used 2002 financial data. See *Education Week on the Web, "Sources and Notes: Resources: Adequacy."* This ranking lists Arizona's per-student spending as \$5,319. However, it used 2000-2001 financial data from the U.S. Department of Education National Center for Education Statistics, *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2000-01*, June 2003. Figures were adjusted using the NCES Geographic Cost of Education Index. See *Education Week on the Web, "Sources and Notes: Resources: Adequacy."* In fact, citing the 2004 *Quality Counts* per-student spending figure, Arizonans for Voter Rewards and Education Funding, headed by Mark Osterloh of Tucson, filed an initiative mandating "the Legislature to pour nearly \$2 billion more into the public school system to bring per-pupil education spending up to the national average. Arizona ranked 49th in spending in the most recent *Education Week Quality Counts* ranking at \$5,487

per pupil. The initiative does not indicate how lawmakers should pay for a spending increase to the national average of \$7,524 per student.” See Robbie Sherwood, “Feeling Lucky? Plan Would Reward Voting,” *Arizona Republic*, July 31, 2003. According to the *2002 Digest of Education Statistics*, per-student spending in Arizona was \$5,444 during the 1999-2000 school year. See Snyder and Hoffman, *Digest of Education Statistics 2002*, Table 166, p. 196. The state Auditor General reports total per-student spending was \$6,048 in 2003 based on data from the Arizona Department of Education, individual school districts, and the National Center for Education Statistics. See Debra K. Davenport, *Arizona Public School Districts’ Dollars Spent in the Classroom Fiscal Year 2003*, Arizona Office of the Auditor General, Division of School Audits, February 2004, Table 4, p. 10, at http://www.auditor.gen.state.az.us/Reports/School_Districts/Statewide/2004_February/Classroom_Dollars_Report_fy2003.pdf (December 19, 2004).

32. In an attempt to insulate school funding from such political pressure, voters passed Proposition 301 in November 2000. Through this ballot initiative, voters approved the largest tax increase in Arizona history: a 20-year, 0.6 percent sales tax increase for education, including increases for teachers’ base pay and performance pay. Schools may also use a portion of their classroom funds for various “menu options” such as reducing class size, classroom supplies, materials,

computers, teacher training, and dropout prevention. See the remarks of then-Arizona State Representative Linda Gray (R-Glendale), in Robbie Sherwood, “Voters to Get Hull’s Plan for Schools,” *Arizona Republic*, June 29, 2000. For complete ballot, see www.sosaz.com/election/2000/info/pubpamphlet/english/prop301.htm#pgfld-118113 (December 19, 2004). By passing Proposition 301, voters made education impervious to funding cuts during legislative sessions. See Rob Melnick, “Proposition 301: Promises, Progress, and Prospects,” Morrison Institute of Public Policy, May 2002, 1, www.dist.maricopa.edu/bwd/prop3013ps.pdf (December 19, 2004). That is why public school students in Arizona are funded according to weighted formulas that are not only voter-protected but also inflation-adjusted. Proposition 301 mandates that the legislature “must increase base-level [funding]...by a minimum growth rate of either two percent or the change in the GDP [gross domestic product] price deflator... whichever is less, except that the base level shall never be reduced below the base level established for fiscal year 2001-2002.” See www.sosaz.com/election/2000/info/pubpamphlet/english/prop301.htm#pgfld-118113 (December 19, 2004).

33. Santa Cruz county is the only exception, since the average weighted state base equalization funding per student is \$4,300.

34. Murray and Groen, “Survey of Arizona Private Schools: Tuition,

Testing, and Curricula.” On the constitutionality of a K-12 education grant system of education finance, see Bolick, “School Vouchers: Constitutionally Permissible in Arizona.”

35. Arizona Education Association, “AEA Disappointed Over Supreme Court’s Decision Not To Hear Arizona Private School Tuition Tax Credit Case,” October 4, 1999, at www.arizonaea.org/issues/supremecourtvoucher.html (December 19, 2004).

36. For example, during the 2003-2004 school year, the Scottsdale Unified School District lost over \$2 million when 600 students transferred out of the district. How many students leave a district determines the amount of state per-student base equalization funding it loses, not where those students transfer, be it another public school district, charter school, or private school. In fact, while some students left for charter schools, 360 others transferred to nearby private Notre Dame Preparatory High School. See Chris Rasmussen, “Baracy Wants to Stem School Exodus,” *East Valley Tribune*, September 21, 2004.

37. The National School Boards Association (NSBA), through the Federation of State Associations, represents 95,000 local school board members, including Arizona School Boards Association members, governing 14,890 local school districts, which oversee more than 47 million public school students nationwide. See

National School Boards Association, “About NSBA,” at www.nsba.org/site/page.asp?TRACKID=&CID=625&DID=9192 (December 19, 2004). The quotation is from National School Boards Association, “Setting the Record Straight,” Chapter 3 of *Keep Public Education Public: Why Vouchers are a Bad Idea*, February 2003, p. 28, at www.nsba.org/site/page.asp?TRACKID=&CID=1490&DID=33735 (December 19, 2004). The NSBA authors cite the Milwaukee and Cleveland scholarship programs as evidence that school districts do not reduce their administrative costs when students leave the district. However, they fail to mention that both of those programs are limited to children whose families meet specific poverty-level requirements. Such means-tested requirements reduce the number of students eligible to participate in the programs, as well as the likelihood that large numbers of students from any single grade or small school would transfer to private schools, thereby undermining the incentive for school districts to economize. For information about the Milwaukee and Cleveland scholarship programs, see “Current School Choice Facts,” at www.friedmanfoundation.org/schoolchoice/theprograms.html (December 19, 2004). Research by Harvard University economist Caroline M. Hoxby and Columbia University researchers Clive Belfield and Henry Levin, for example, contradict the NSBA’s claim that public school districts do not respond to competition from private schools. See Hoxby, *School Choice and School*

Productivity. For a non-technical version of this study, see Caroline M. Hoxby, “Rising Tide,” *Education Next*, Winter 2001, 68-74 <http://www.educationnext.org/20014/68.html> (December 19, 2004). See also Clive Belfield and Henry Levin, “The Effects of Competition on Educational Outcomes: A Review of the U.S. Evidence,” National Center for the Study of Privatization, Teacher’s College, Columbia University, March 2002, www.ncspe.org/publications_files/688_OP35V2.pdf (December 19, 2004).

38. Tamara Henry and Anthony DeBarros, “Vouchers Enter Second Decade; Milwaukee Finds No Easy Answers in School Choice,” *USA Today*, October 24, 2000.

39. For example, when John Baracy became Superintendent of the Tempe Elementary School District in 1998, it was on the verge of closing. For six consecutive years enrollment declined, due in large part to students leaving the district for other school districts and charter schools. Baracy responded by eliminating the district’s bureaucratic practices so it could be more student-centered and responsive to parents. As a result, Baracy explained, “[Now] we’re not talking about closing schools, we’re talking about maybe opening up another school. We’re bursting at the seams in some areas.” Parents are so pleased with the district’s improvements, many removed their children from their former school districts—which meant they had to provide their own transportation, including parents of 515 students who transferred from the Mesa

Unified School District and 267 from the Kyrene School District. See Jessica Wanke, “Marketing Boosts School in Tempe,” *Arizona Republic*, February 14, 2004. Baracy is now the Superintendent of the Scottsdale Unified School District.

40. Currently, 19 Arizona public school districts are under a court order to desegregate or have a U.S. Department of Education Office of Civil Rights agreement. “Current statute authorizes a school district to levy and spend revenue beyond...budget limits if that district has (or had) a court order of desegregation or an administrative agreement with the U.S. Department of Education Office of Civil Rights (OCR). Even if the desegregation order or OCR agreement ends, the district can continue to levy for desegregation expenditures.” See Hunter and Gifford, “School Finance Primer,” 12. Michael Hunter, vice president of the Arizona Tax Research Association, explains that these levies “are unlimited budget overrides requiring no voter approval. In fact, some districts have used this taxation authority to compensate for the loss of revenue when overrides are rejected by voters.” In 1990 the Office of the Auditor General found that “expenditures budgeted outside of the revenue control limits for desegregation programs are growing...some costs categorized as desegregation expenditures do not appear to be related to desegregation orders and agreements.” That year, “10 districts levied \$47.3 million under this provision. For fiscal year 2002, 19 districts levied \$193.8

million, a 309.7 percent climb over the 10-year period.” In 2005, taxes to pay for these desegregation programs could be as high as \$54 million statewide, \$72 million in 2006. See “House Approves Deseg/OCR Reform Bills,” Arizona Tax Research Association Newsletter, Volume 64, no. 2 (February/March 2004), 4, at www.arizonatax.org/FebMarch%202004.pdf (December 19, 2004).

41. There are also several existing statutory measures that protect school districts against the possibility of losing a significant portion of their student populations in any given year. Because Arizona public school districts use prior-year budgeting, schools automatically receive funding for the number of students they enrolled the previous year. They “are funded on a prior-year basis because during the first half of each fiscal year they are paid on their count from the previous year—districts’ apportionments are only adjusted after two student count reports well into the school year.” See Hunter and Gifford, “School Finance Primer,” 20. Charter schools, which are also public schools, are funded on a current-year basis and must follow different enrollment reporting procedures to ensure they are funded only for the students they are actually educating. Moreover, under current Arizona law, even if school districts lose a significant number of students in any given budget year, from as little as five percent of enrollment all the way up to 100 percent, they continue to receive funding from the state. Thus, in addition to keeping their

non-equalized student funding after students leave, and having a full year to adjust to their budgets to actual student counts, districts are held harmless even if a significant portion of their student populations were to leave. See Arizona Revised Statutes 15-942, “Adjustment for Rapid Decline in Student Count,” at www.azleg.state.az.us/FormatDocument.asp?inDoc=/ars/15/00942.htm&Title=15&DocType=AR S (December 19, 2004).

42. See “The Forbes 400: The Richest Americans 2003.”

43. Those amounts also correspond to the average Arizona private school tuition amounts. See Murray and Groen, “Survey of Arizona Private Schools: Tuition, Testing, and Curricula.”

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