

A VOTER'S GUIDE TO UNDERSTANDING DISTRICT AND CHARTER SCHOOL BUDGETS

Why is understanding school finance so hard? And, why can't we improve educational outcomes simply by focusing on a teacher and the pupils within the four walls of a schoolroom? Why is it necessary to consider funding needs of other parts of the school? To answer those questions, it is helpful to begin by defining "the classroom." The classroom is the learning environment that surrounds each child. To put it another way, the school district is the classroom, all the buildings, the playgrounds and playing fields. Each child learns essential lessons every day in that total school learning environment.

Returning to the initial question -- why is understanding school finance so hard? The answer is because school finance is very complicated! The purpose of this publication is to try to simplify school funding, to provide a set of common descriptions as a base for our public understanding and to provide pertinent background information. It is organized in sections. Unanticipated consequences are included at the end of both the district and charter sections.

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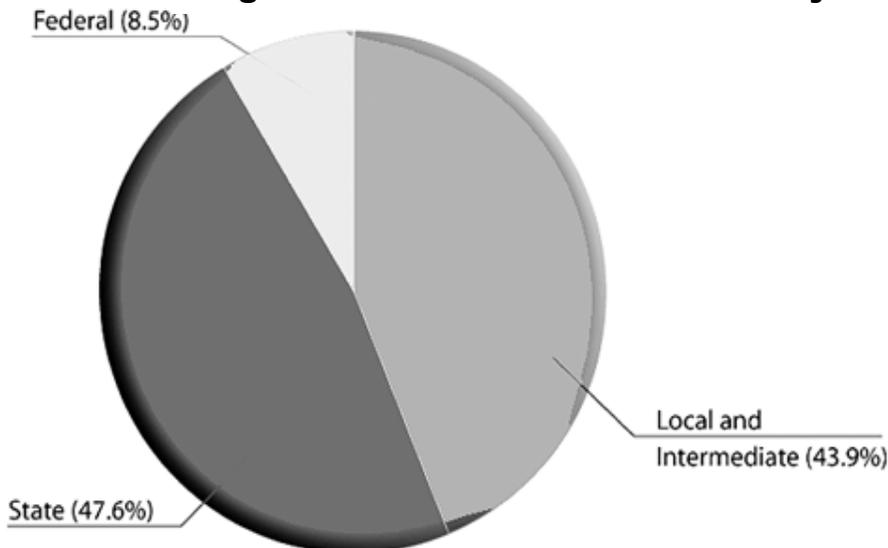
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Section I: Public District Schools

We begin by looking at where the money comes from. Figure 1 shows the three sources funds for all 50 states. Local revenue comes from property taxes. State revenue comes through the state general fund made up of several different sources and the federal money comes through grants (title nine, special education, race to the top, etc.) and program reimbursements (school lunch, federal grants administered to schools through the AZ Department of Education, etc.)

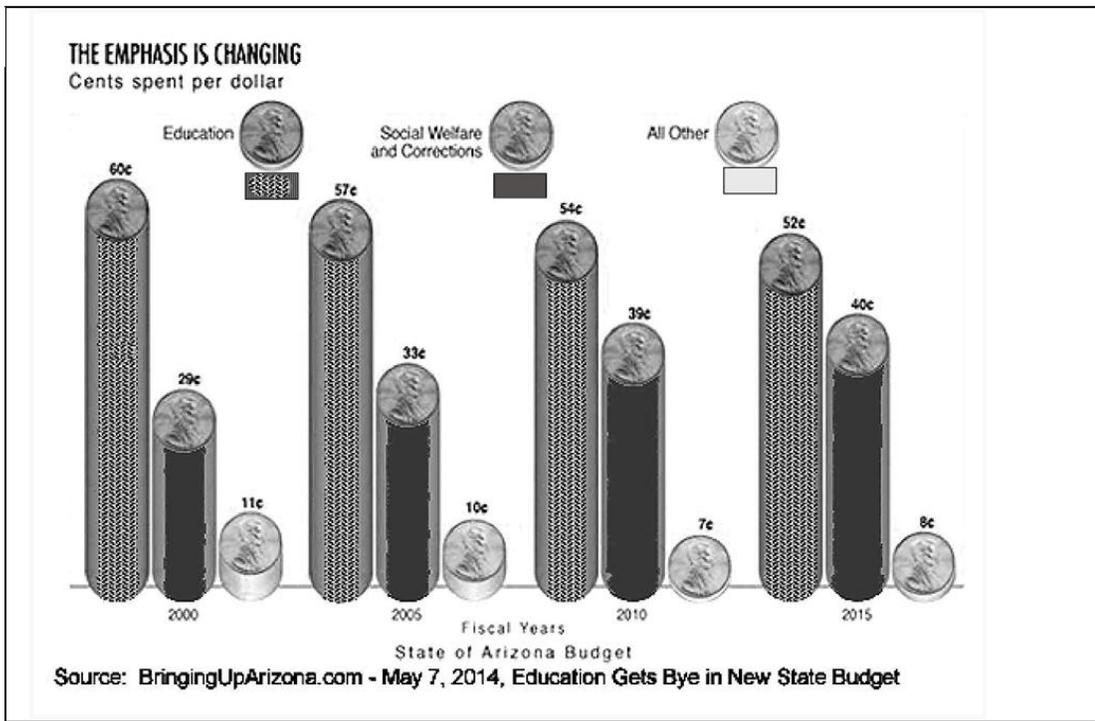
Figure 1. Public School Revenue by Source



Source: American Association of School Administrators. School Budgets 101 document.

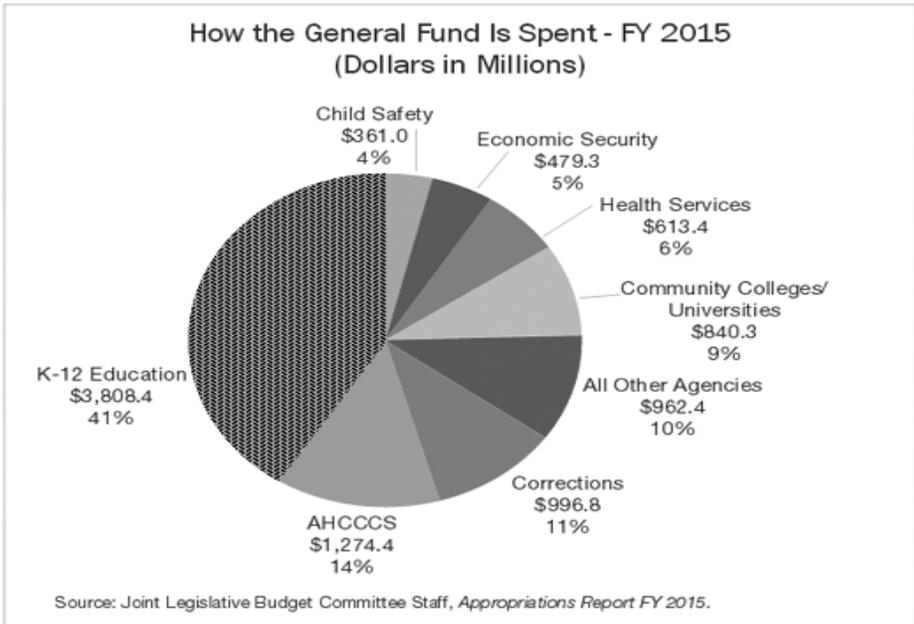
Slightly over 40 percent of the general fund monies are scheduled to be spent on K-12 education in 2015; the proportion of K-12 education spending has diminished over time -- even during the past 5, 10 and 15 years -- as shown in figure 2.

Figure 2



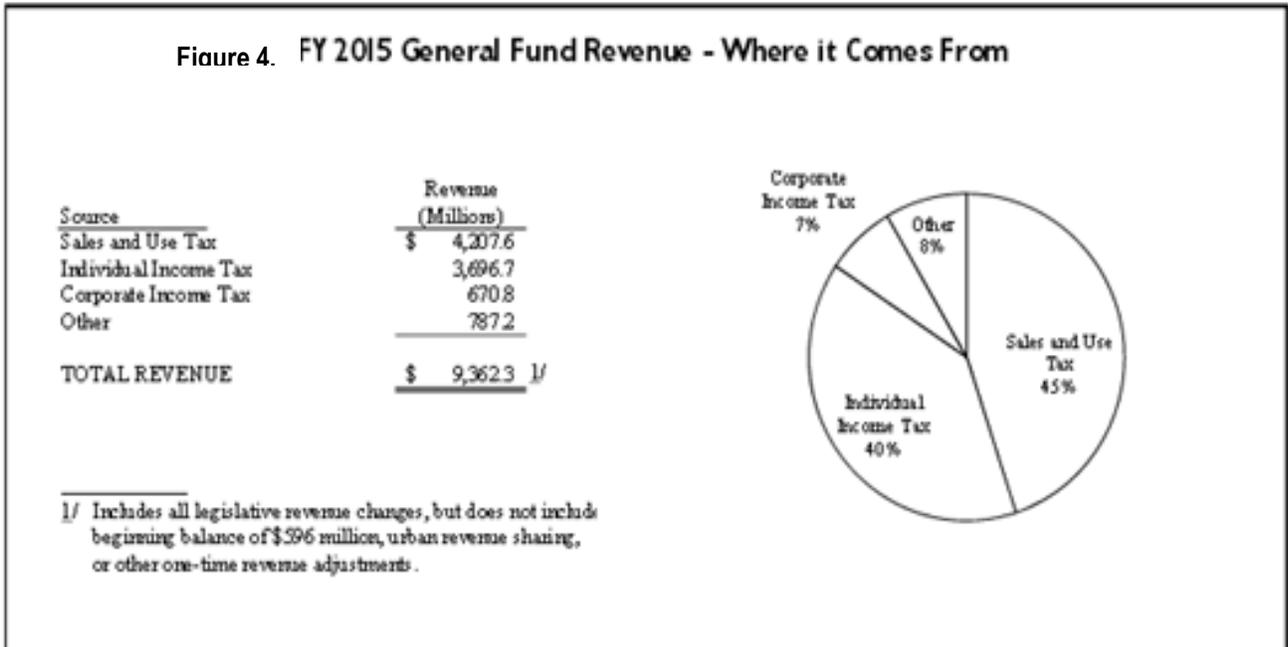
Why does such a large percentage of the budget go toward K-12 education? Consider that there are nearly 1.4 million youth, ages 5-19 in the state according to population estimates for 2012. A fundamental responsibility of state government, since early in our nation's history, has been the public education of all children. The question is where will those funds come from? And, furthermore how much money will be available? The state gets its money from revenue and taxes as determined by the Legislature. Thus, the state not only determines how it will spend its money but where it will come from and how much it will derive from each source. Figure 3 shows the distribution of state fund expenditures for FY 2015.

Figure 3. Arizona General Fund Expenditures for 2015 by Category of Spending



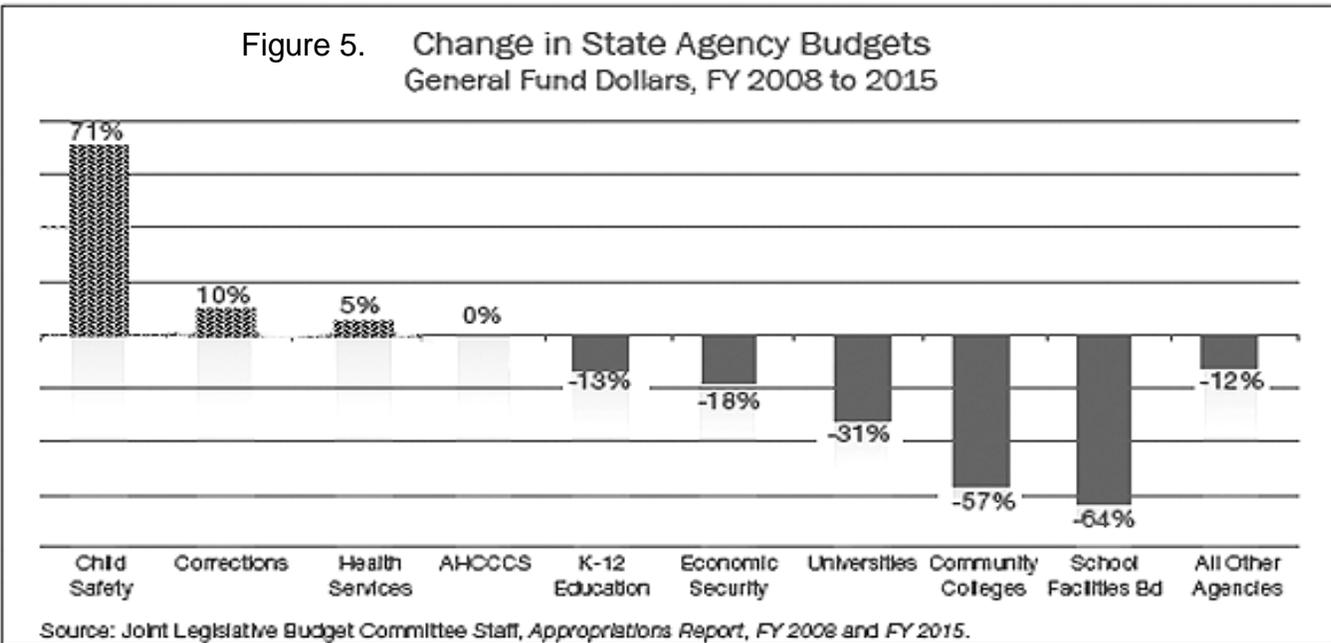
Source: Children's Action Alliance (CAA) 2015 publication, "Questions and Answers About Arizona's State Budget and Taxes", pg. 3.

It is important to understand this part of the process because both the Legislature and the Governor tell us where we stand with the budget and what their intentions are. Arizona law requires a balanced budget, but it does not restrict the Legislature in achieving additional revenue through some different approaches. Figure 4 shows the source of Arizona's FY 2015 General Fund revenue.



Source: The Joint Legislative Budget Committee Staff, Appropriations Report FY 2015, pg BG-10.

It should be noted that the Legislature has been systematically diverting revenue from both individual and corporate income tax through a system of dollar-for-dollar tax credits, thus relying more heavily on a regressive sales tax which places a greater burden on the poor than the wealthy or more affluent.



Source: CAA's 2015 publication, "Questions and Answers About Arizona's State Budget and Taxes", pg. 7.

CAA's 2015 report, Questions and Answers About Arizona's State Budget and Taxes states: *"Despite higher costs, more prisoners, more students, and more children in foster care, the current state budget is smaller than the budget in fiscal year 2008. In total the current state budget (FY2015) is 94 percent of what it was right before the Great Recession. But, the differences vary widely across different state agencies and services. The Department of Corrections budget is 10 percent higher than it was before the recession, while funding for the School Facilities Board is 64 percent lower."*

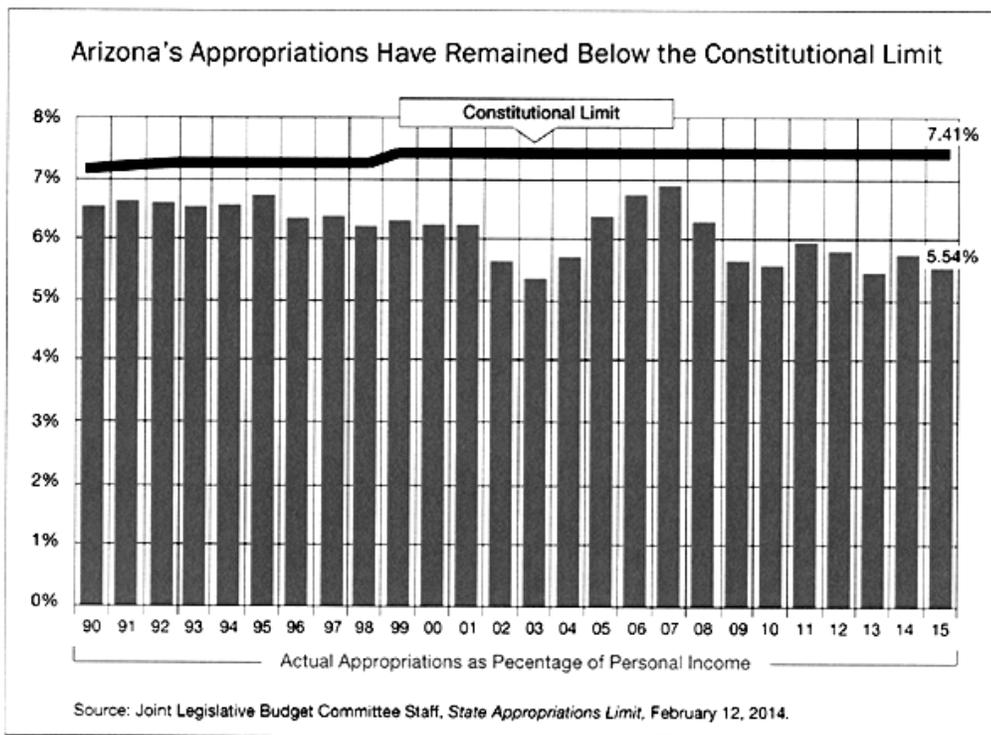
We often hear the refrain, "We'd like to do that, but there is simply not enough money in the budget." The response is usually a way of avoiding the problem (or pushing it down the road), but is not really a solution because the Legislature has the power to deal with the lack of general fund dollars directly. The Legislature can choose to solve the problem by raising additional revenue through additional taxes in one form or another or by reducing the number of tax credits and/or tax cuts previously authorized. It is not as much a fiscal problem as an issue of **choices** made.

A pledge not to raise taxes has no legal standing but is rather a political decision. The Arizona Constitution sets spending limitations for all appropriated funds based on the overall state economy. Currently the limit is 7.41 percent of total state personal income.

Over the past few decades, the Arizona Legislature has consistently chosen to deprive the state general fund of the monies to meet the categorical needs of its constituents -- the children and the less fortunate.

The following chart, shown in figure 6, illustrates the Constitutional limit and the actual appropriates by year. The claim there is no money in the budget is a consciously created claim that defeats the intention of the Constitution to provide adequate and necessary funds to public services.

Figure 6.



Source of graph: The Children's Action Alliance, "Q & A About Arizona's State Budget and Taxes", Jan. 2015, p. 12.

In 2010, voters passed Proposition 100, a temporary 1-cent-per-dollar sales tax to expire in three years. *"The tax, sold to voters as a way to protect core state services, primarily*

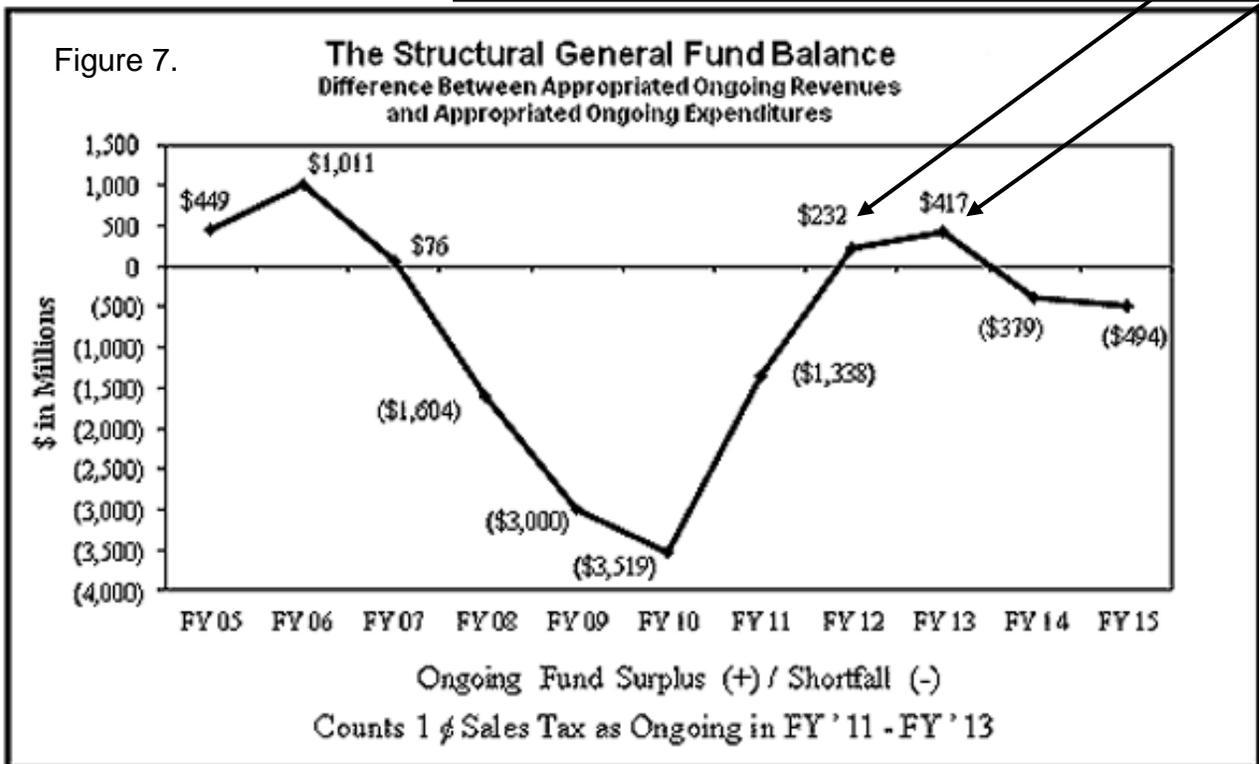
education, from further budget cuts was overwhelmingly approved in 2010. The temporary tax took effect and shielded education, health services and public safety from additional cuts. It pumped \$2.7 billion into those programs over three years. But, it also allowed the state to accumulate a surplus of more than \$700 million as well as make a \$450 million deposit to the 'rainy-day' fund" -- money that could have been used to reverse the earlier education cuts. Instead K-12 education spending dropped from 53.5 percent of the state general fund, in fiscal 2008, to 43.9 percent in fiscal 2013.

"While the temporary tax money flowed in, lawmakers and (then) Gov. Jan Brewer started to phase in a \$538 million tax-cut package, with the biggest cuts yet to take effect. As a result, some voters and education advocates say the tax turned out to be a bait and switch, subsidizing fiscal maneuvers that voters didn't sanction."

.....Source: Mary Jo Pitz, The Arizona Republic, March 31, 2013.

A significant factor in the budget crisis in Arizona today exists as a result of the Legislature's actions over the past decade-and-a-half to authorize the diversion of legitimate tax revenue from the general fund through a system of dollar-for-dollar tax credits for both individuals and corporations. According to the AZ Dept. of Revenue (AZDOR) individual and corporate tax credits totaled nearly \$700 million from the beginning of the individual tax credits in 1998 through the end of FY2013. The tuition tax credit program to support private education has contributed to depleting the general fund and, thus, to the state's inability to address fiscal needs for protecting and educating children in addition to other critical state needs.

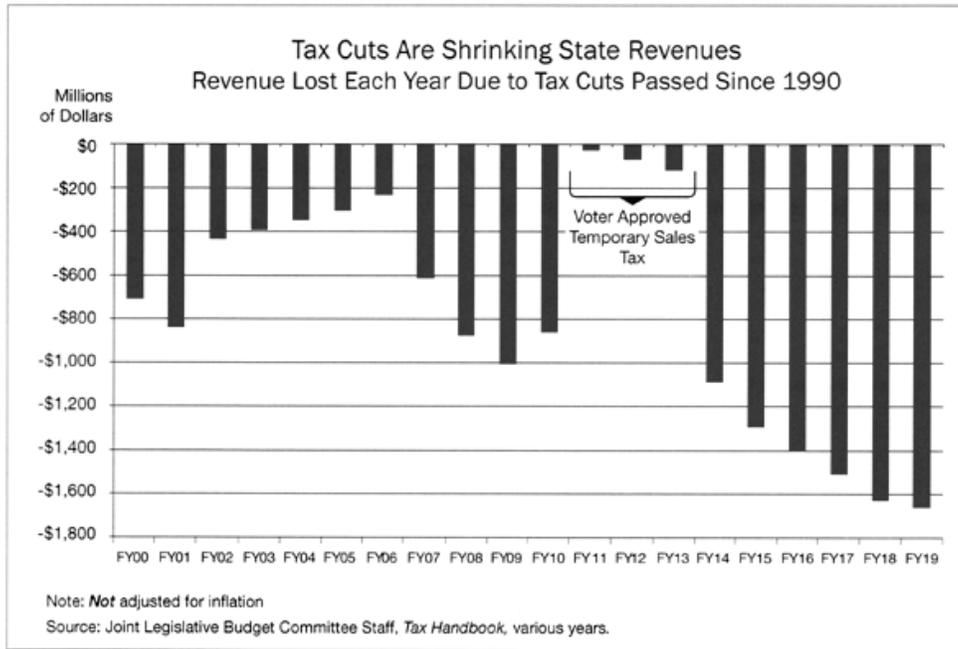
NOTE: Years showing the impact of the 1 cent sales tax for education.



The following chart, figure 8, shows the extent to which the tax cuts have depleted state revenues. 'By fiscal year 2016, the cumulative impact of this steady stream of tax cuts enacted since 1990 is projected to reach \$1.4 million in less state revenue in just one year. These amounts are not adjusted for inflation, if they were, the impact would be more than doubled.'

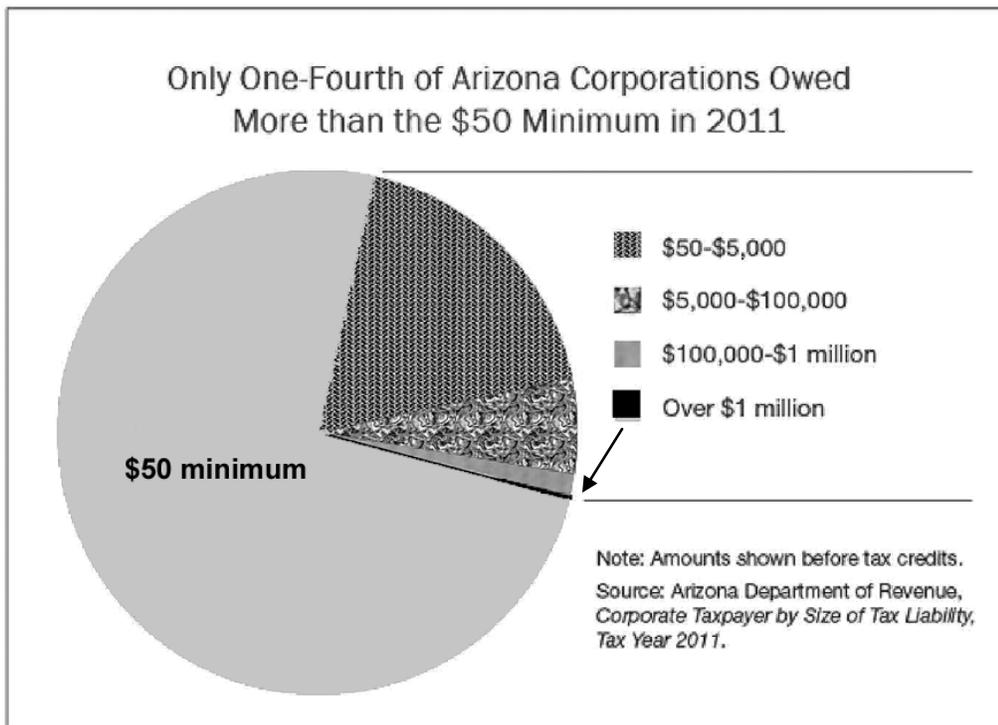
.....Children's Action Alliance. "Q & A About Arizona's Budget...." p. 16.

Figure 8.



Source of graph: Children's Action Alliance, "Q & A About Arizona's State Budget and Taxes", Jan. 2015. p. 16

As noted by the Children's Action Alliance "Q&A Budget" report, "Surprisingly, corporations and individuals at all income levels can end up paying little or no state income taxes." pg. 13.



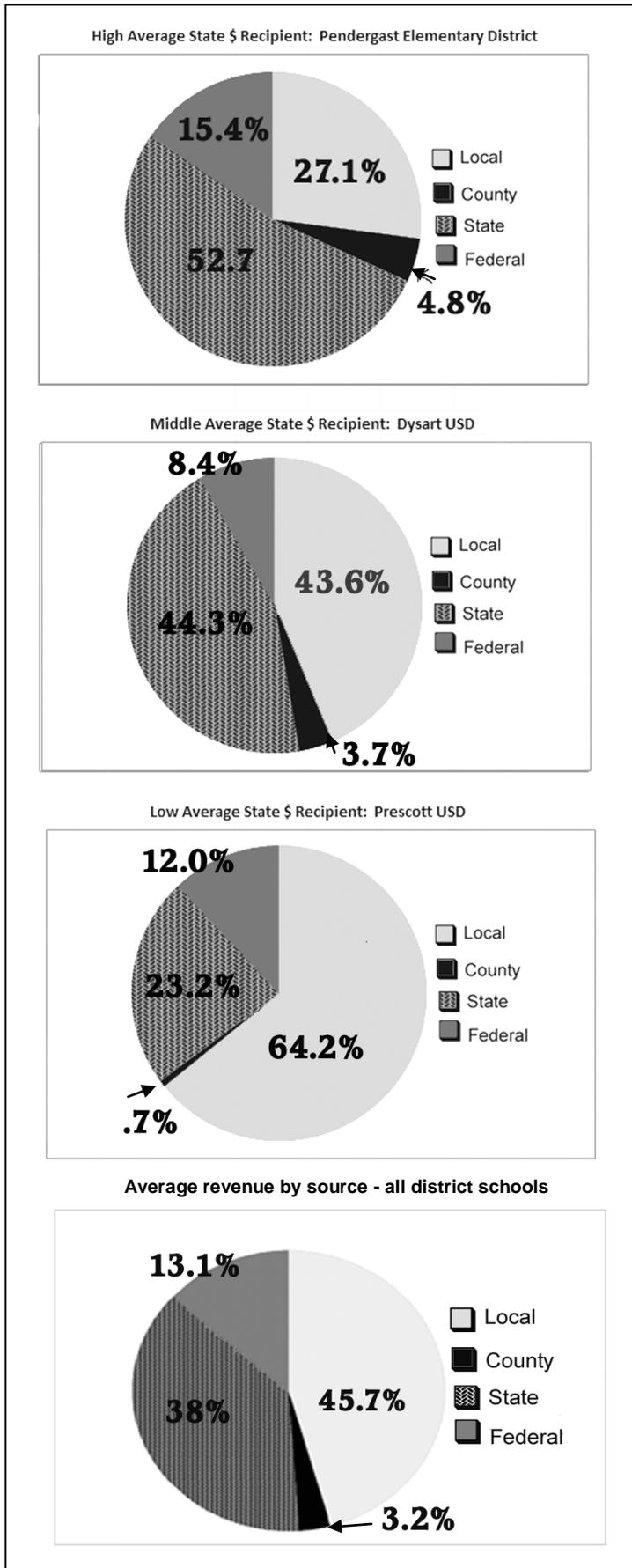
"In 2011, corporations reduced their tax liability by \$119.6 million through the use of tax credits and carried another \$1 billion over to be used in future years."

.....Children's Action Alliance

Figure 9. Source: CAA's January 2015 publication, "Q & A About Arizona's State Budget and Taxes", pg. 13.

When thinking of the role of equalization of funding, we must remember all school districts are not created equal. That is to say, they differ in the property values within the district – the basis for the property taxes that support public schools. Because of inequality, since the 1970s the state has used a formula to equalize the base amount of money per pupil available to each school district. The following chart illustrates three districts representing low, average, and high property value and how equalization works for the three districts.

Figure 10. Percentage of School District Revenue Funds by Source.



----Pendergast has relatively low property values, which means the state must provide more money in order to equalize the public school district in comparison to other districts. In the case of Pendergast, the state supplies 52.7 percent of the yearly budget. Local property taxes supply 27.1 percent of the budget and the county provides 4.8 percent. The federal government provides 15.4 percent of their budget as school lunch monies and an additional five percent for other programs and other state sources are six percent.

-----The second pie chart is for the Dysart Unified School District (USD) . Dysart is a large geographic district with about average property values. The state provides 44.3 percent of Dysart's funds; local taxes make up 43.7 percent of the funds. The county supplies 3.69 percent of the funds and the federal government provides 8.4 percent of the funds.

-----The Prescott School District is a relatively wealthy district as far as property values are concerned. In its case, the state provides only 23.1 percent of the budget; local property taxes provide 64.2 percent of the funds. The county provides less than one percent and the federal government provides 12.0 percent.

-----Average percentage of revenue by source for all AZ Districts Schools, 2013-14.

Some of the variation in federal funds shown is as a result of Race to the Top grant funds received by some school districts.

Data Source: Arizona State Superintendent's Annual Report 2013-14, Vol II, pgs. I-127, 1-105. I-241. and 1-261.

We now know the source of the monies received by district schools. The pie chart in figure 11 shows where the Arizona district schools' money is spent. Fifty-two percent of the money is spent on classroom instruction (the teacher-student interaction in the classroom). However, that does not represent the total learning environment.

The availability of classroom supplies has an effect on learning as well as student support services and administration.

The student support services encompass those professionals who support the classroom teachers. They include: school nurses, school psychologists, ELL specialists, guidance counselors, speech therapists, reading specialists, librarians, special education teachers, media specialists, and professional development specialists.

Administration includes principals, vice principals, department heads, curriculum directors, human relations personnel, school secretaries, directors of federal projects, accounting, student records. The category other includes transportation directors, bus drivers, crossing guards, play ground supervisors, cafeteria workers, custodians.

Obviously, the size of the district and the number of students served has an impact on the number of personnel involved. In small districts, a single individual may have the responsibility for multiple roles.

All of the personnel contribute to the learning environment. Modern schools are complex because of the demands placed on them by society.

Figure 12, shown on the following page, is a chart by the Center for Student Achievement, a non-profit housed within the Arizona Charter School Association. It provides a graphic presentation showing all of the fund sources for Arizona public schools -- explaining the core funding and supplemental fund sources.

The flow chart (figure 13) on page 11 illustrates the entire funding process. In Part II, we will attempt to explain in layman's language, with representative examples, what goes into this very complex system and how it works.

Figure 11. District School Expenditures

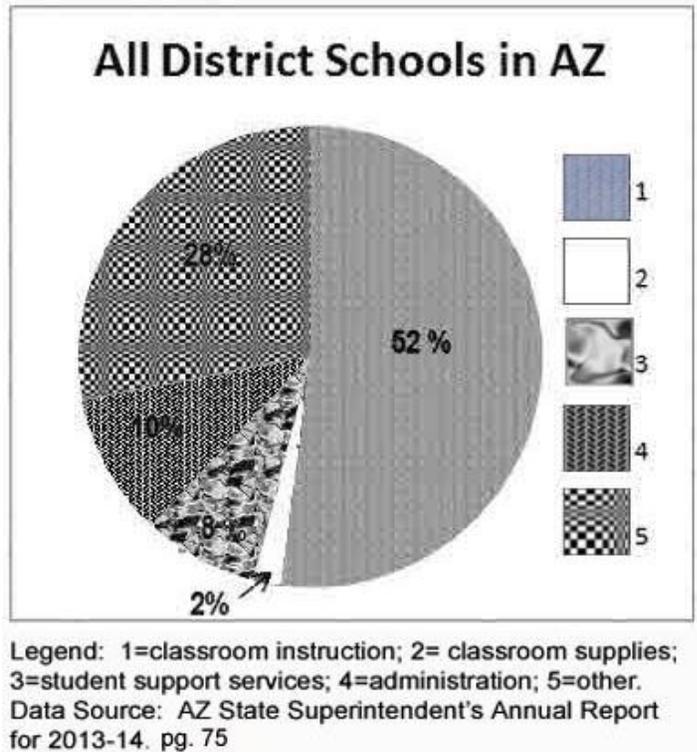


Figure 12. Public school funding. Graph source (Center for Student Achievement.)

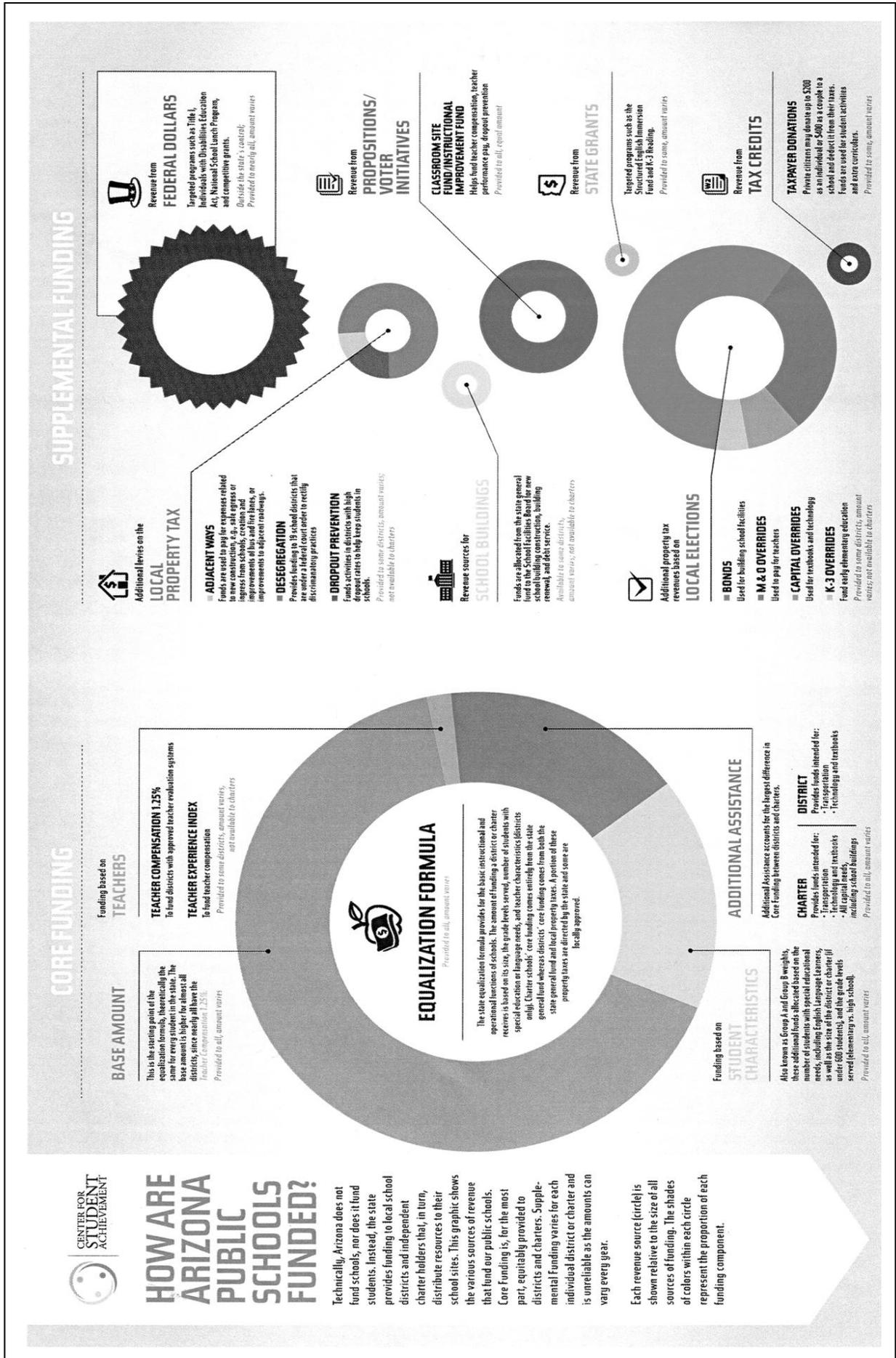
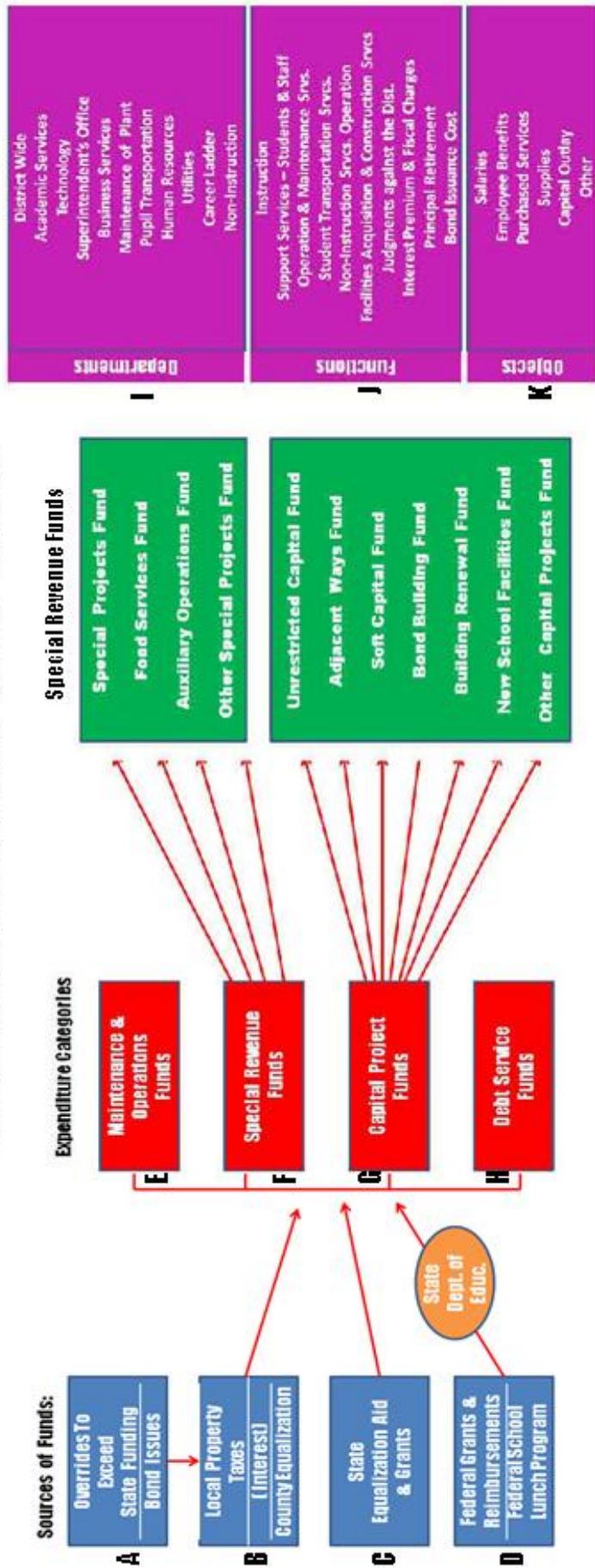


Figure 13. This chart illustrates the entire district funding process. In Part, II we will attempt to explain what goes into this very complex system and how it works in layman's language using representative examples

Public School Fund Flow Chart



"For more than half a century after statehood in 1912, Arizonans were willing to accept a relatively high state and local government tax burden, with a disproportionate share of the revenue used to support public education. This was in line with the Arizona Constitution which mandated that "the Legislature shall make such appropriations, to be met by taxation, as shall insure the proper maintenance of all state educational institutions, and shall make such special appropriations as shall provide for their development and improvement."

Though the Constitution was never modified, support for public education began to wane in the late 1960s. Along with a reduction in education spending relative to the rest of the nation, the tax burden of Arizonans fell. Until this time, the educational attainment of Arizonans was better than the national average. High-technology operations accounted for a larger share of the Arizona economy than the national economy. Incomes of Arizonans were relatively close to the national average."

..... - Policy Points, ASU Morrison Institute for Public Policy, December 2011

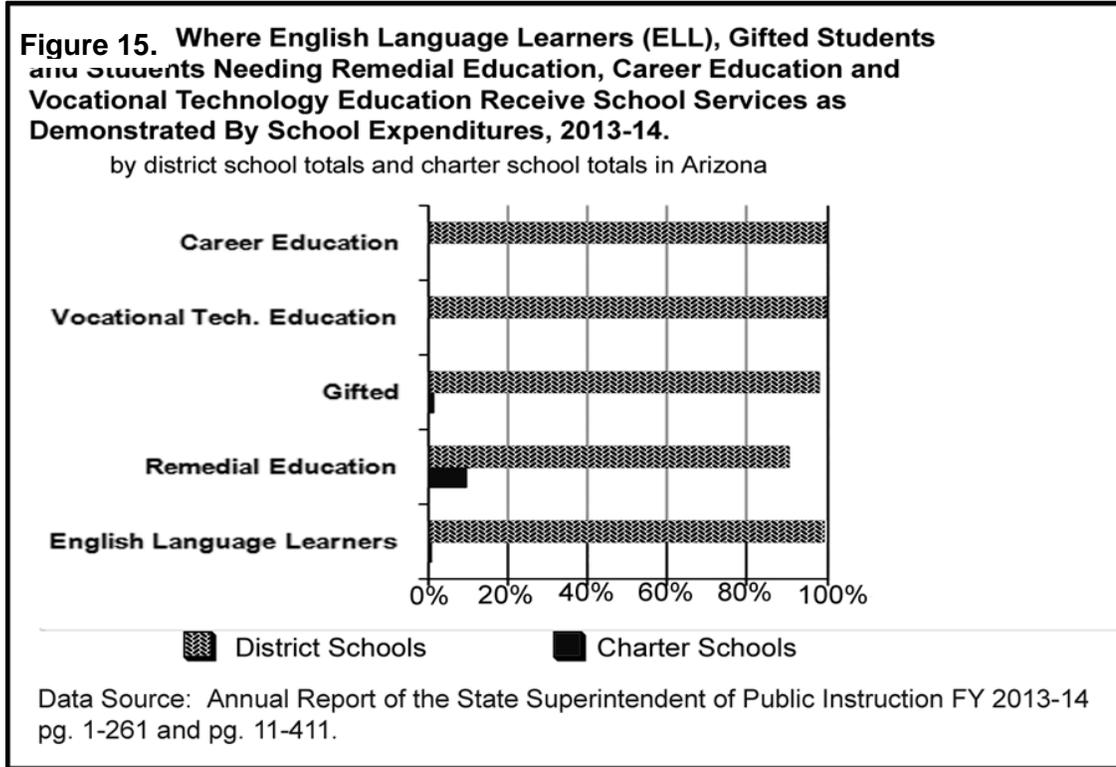
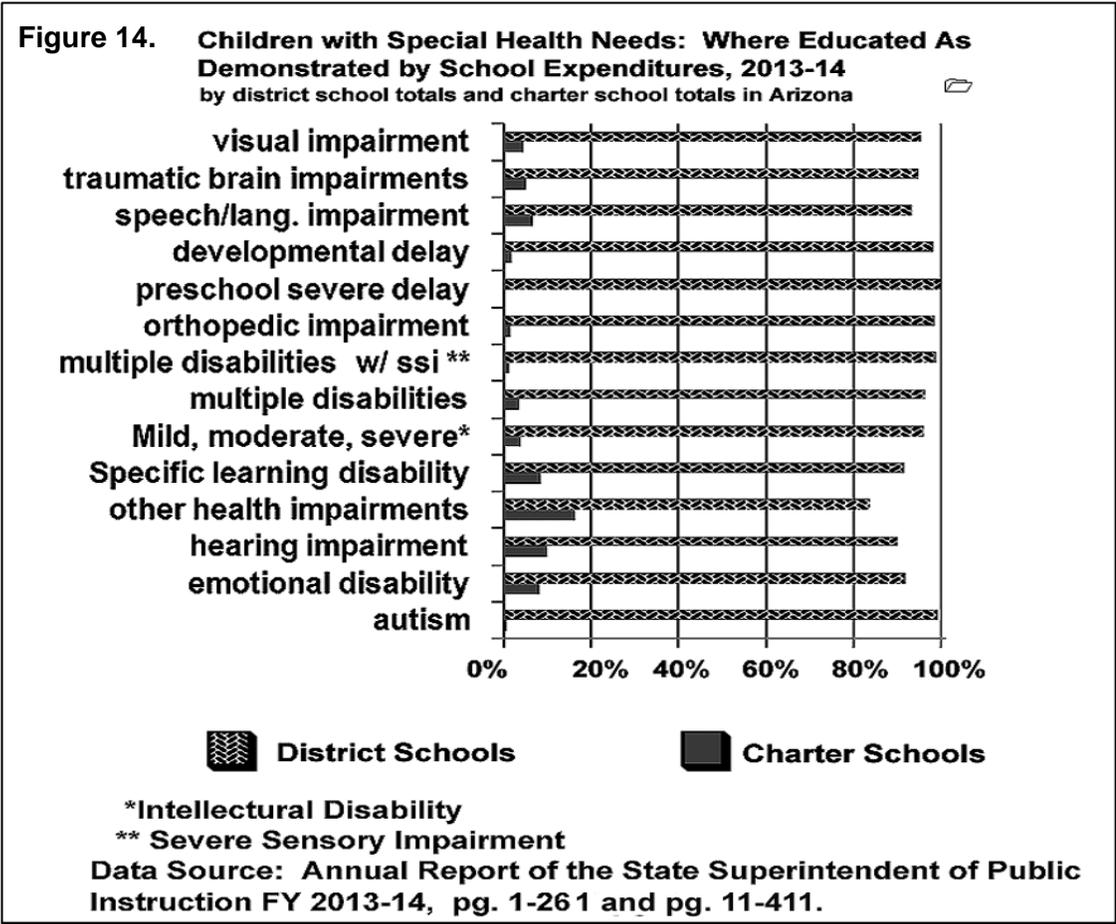
Although the Constitution calls for the Legislature to provide a "general and uniform public education" for all Arizona students, the statistics indicate that has not been the case. The Arizona Constitution calls for the appointment of a state board of public education to oversee K-12 education. It is its responsibility to recommend and regulate the education programs. The Constitution requires the Legislature to provide the funding for those programs. Court cases have found the Legislature negligent. School districts struggle from year-to-year with funding uncertainty related to state dollars while they attempt to maintain, recruit and build a superior faculty of teachers and support personnel to teach the variety of student learners who are a part of the student population.

While offering the public the popular opportunity to reduce taxes paid through a dollar-for-dollar tax credit for donations to public schools, the program contributes to greater inequality between and within districts because some districts and/or schools receive considerably greater dollar contributions than others.

District schools are required to provide special education programs under budget code 200. Special programs include activities for elementary and secondary students (pre-kindergarten through grade 12) receiving services outside the realm of 'regular programs' in accordance with disability classifications defined in A.R.S. 15-761, and programs for gifted, remedial, English immersion, vocational and technological, and career education." (AZ Dept. of Educ.)

The USFR Accounts guide from the Arizona Department of Education and the Office of the Auditor General list 20 special categories including "autism; emotional disability; hearing impairment; other health impairments; specific learning disability; mild, moderate or severe intellectual disability; multiple disabilities; multiple disabilities with severe sensory impairment; orthopedic impairment; developmental delay; pre-school severe delay; speech/language impairment; traumatic brain injury; visual impairment; gifted education; remedial education; English Language Learners incremental costs; English Language Learners compensatory instruction; vocational and technological education and career education".

The above listing represents quite an expectation for district schools to both prepare for and provide services to meet the special educational needs of students for the wide variety of health issues -- an expectation not required of other schools. Most of these students are educated in the public district schools as shown in figure 12. Furthermore, additional services are needed by English Language Learners (ELL), gifted students, those requiring remedial education, and/or those wanting vocational technology or career education. Figure 13 shows the expenditure of funds for ELL, gifted, remedial, vocational technology and/or career education by all district schools and all charter schools in the state.



Part of the complexity and the difficulty in understanding the funding process derives from the fact that funding the functional categories is not a mutually exclusive situation; the money comes from different funds. In the next section, we will explore in detail the funding process and the flow chart shown in figure 11 for those wishing to gain more in-depth knowledge of the process.

Section I: District School Funding, Part 2: Flow Chart Details

In an attempt to make this all understandable, we will disaggregate each box from the flow chart (figure 11, page 8) and describe its purpose within the budget. We start with a description of budgets for district schools. The descriptions used are those provided by the Department of Education and Auditor General to school districts. In section II and for comparison purposes, we will use a flow chart for charter schools to illustrate the differences between the two entities.

As we think about the "classroom", it is essential to realize it is not just the classroom teacher's salary that goes into "instruction"; it is also money from M&O (maintenance and operations) as well as money from support services (i.e. school nurses, social workers, psychologists, librarians, etc.)

So if you want to move more money into classroom instruction you have to increase the money in maintenance and operations and support services as well as teachers salaries.

Column 1 of the Flow Chart: Sources of Funds

Box A of the flow chart illustrates two sources of funds to the local school district. A district override election is permitted by state law and allows, by public vote of the district's taxpayers, the district to exceed the projected state budget by 15%.

A	Overrides To Exceed State Base Funding Bond Issues
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When there is a shortfall in the state budget and/or state cutbacks, districts often have no other option than to seek additional money from local taxpayers to meet district budget needs via an "override election." Although the terminology sounds like a district merely wants to exceed its budget, instead an override speaks to the budget needs not met by the state and represents a part of the cost shifting for funding

to local property owners. With a prior override in effect, the override election does not mean a new tax, but rather continues a previous public vote to allow additional funding. Bonding also allows the district to secure funds for school improvements by issuing bonds. Bonds must also be voted on by the public.

B	Local Property Taxes (Interest) County Equalization
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Box B focuses on local property taxes and comprises the second largest revenue source for a school district. This also includes the county equalization tax. As with our home budgets, some interest may be accrued on some funds received for a short period of time prior to expenditure.

C	State Equalization Aid & Grants
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BOX C shows the main source of revenue for a district school. It is derived from state sources, such as equalization assistance, state aid, and grants. Equalization assistance is defined as the amount of money provided by the state and county to school districts over and above a uniform primary property tax rate, also known as the qualifying tax rate (QTR). State grant funds are provided to the district on a qualifying entitlement basis. Grant funds consist of specific revenue sources that are legally restricted to expenditures for specific purposes.

D **Federal Grants & Reimbursements**

Federal School Lunch Program

BOX D shows the federal grant funds which are provided to a district on a qualifying/entitlement basis. Grant funds consist of specific revenue sources that are legally restricted to expenditures for specified purposes.

Column 2 of the Flow Chart: Expenditure Categories

E **Maintenance and Operations Funds**

Box E accounts for operation and maintenance of plant services and includes activities concerned with keeping the physical plant open, comfortable and safe for use and keeping the grounds, buildings and equipment in effective working condition and state of repair. These activities include maintaining safety and buildings, on the grounds and in the vicinity of schools. Included in this category are operation of

buildings, maintenance of buildings, care and upkeep of grounds, care and upkeep of equipment, vehicle operation and maintenance, security and safety.

F **Revenue Funds**

Box F shows special revenue funds. The largest funding source for these funds is derived from federal grants and reimbursements. Federal grants funds are provided to the district on a qualifying or entitlement basis. Grant funds consist of specific revenue sources which are legally restricted

to expenditures for specific purposes. The Medicaid program and the national school lunch program providing reimbursements to the district are examples. The Medicaid administrative claiming program provides reimbursements to the district related to costs associated with employing individuals who assist children in obtaining/accessing Medicaid services. The Medicaid direct service claiming program reimburses the district for costs resulting from providing direct medical services to program eligible students.

G **Capital Project Funds**

BOX G - Capital projects funds account for resources to be used for acquiring and improving school sites as well as acquiring, equipping and improving buildings and attached fixtures.

H **Debt Service Fund**

BOX H - The debt service fund accounts for resources accumulated and used for the payment of general long-term debt principal, interest and related costs.

Column 3: Special Revenue Funds.

I	<ul style="list-style-type: none"> ▶ Special Revenue Funds ▶ Adjacent Ways Fund ▶ Auxiliary Operations Fund ▶ Other Special Projects Fund
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BOX I: The Special Revenue Funds account for the proceeds of specific revenue sources legally restricted to expenditures for specified purposes, and include: school plant, special projects, ancillary operations, food services, litigation recovery, gifts and donations, fingerprinting, insurance proceeds, textbooks, indirect costs, unemployment insurance, classroom site, extracurricular activities fees, tax credits, grants and gifts to teachers, insurance refund, joint technological education, inter-governmental agreements, municipality grants,

compensatory instruction, instructional improvement and full day kindergarten.

Adjacent Ways Fund. The adjacent ways fund accounts for monies received to finance improvements of property adjacent to the school, such as public streets, or improvements of school property that provides safe access for buses and fire equipment.

Auxiliary Operations Funds. Auxiliary operations funds account for revenues and expenditures arising from bookstore operations, athletic operations and miscellaneous district related operations. Revenue may include the sale or rental of books, supplies and materials, course fees; fees for optional, non-credit, educational or recreational activities: deposits for the use of district supplies; athletic gate receipts and concession sales; and other miscellaneous receipts.

Other Special Projects Funds. Accounts for revenue and expenditures of monies collected in support of extra-curricular activities to be taken as a tax credit in accordance with ARS. 43-1-89.0 Also gifts and donations, bequests and private grants. This area accounts for project sales, by career, vocational and technical education students, and revenues and expenditures for finger printing employees.

J	<ul style="list-style-type: none"> ▶ Unrestricted Capital Fund ▶ Adjacent Ways Fund ▶ Soft Capital Fund ▶ Bond Building Fund ▶ Building Renewal Fund ▶ New School Facilities
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BOX J: Soft Capital Fund. The soft capital fund accounts for transactions related to the acquisition of capital outlay items that are capital materials and equipment needed to assist students in mastering academic standards.

Bond Building Fund. The bond building fund accounts for monies received from district bond issues that are used to acquire sites, construct or renovate school building is, supply buildings with furniture and apparatus, improved school grounds and purchased transportation vehicles.

Building Renewal Fund. The building renewal fund accounts for monies received from the school facilities Board that are used for infrastructure, or for major

upgrades, repairs or renovations to areas, systems or buildings that will maintain or extend their useful life.

New Schools Facility Fund. In 1994, the Arizona Supreme Court ruled that the state’s formula for funding school facilities and equipment violated the Arizona Constitution. In 1998, the Arizona state Legislature passed and the state governor approved, bill 1101, a revised version of Students First (fair and immediate resources for students today). Students First followed constitutional requirements by setting adequacy standards for school buildings and assigned the School Facilities Board a state level board, to develop a detailed standard. The goal of the Students First legislation was to provide enough funding to bring existing facilities up to

adequate standards and maintain all capital facilities at an adequate level. Student's First funds helped to support capital projects for a district. In the past, funding for building and renewal was based on the square footage and building renovation information submitted by the district. Currently, there is a moratorium on these funds and they are now limited to emergencies.

The new schools facilities fund accounts for monies received from the School Facilities Board that are used to purchase land, to construct new school buildings and for the related architectural and engineering fees.

Other Capitol Projects Fund. The other capital projects fund accounts for the revenues and expenditures of the following activities: gifts and donations and insurance proceeds.



BOX K: Special Revenue Funds to Departments. All of the special revenue funds are used to support the various departments within the school district. Those departments provide the functional categories with the services needed to educate the

district's children. For purposes of accountability, those monies spent are organized into object categories.

To help you better understand why the district is organized into the various departments. We will look at each of those departments and the functions that they provide. All districts are organized in this manner and of course the larger the district, the more complex the organization. While some might see all of these departments as unnecessary, it is important to remember that each department is a part of the learning environment and that they all contribute to the classroom and its effectiveness.

Academic Services - academic services department supports the work of the superintendent in providing comprehensive support services to promote successful learning for all students. The mission of the department is to provide all children with a wholesome educational experience through high quality teaching.

Technology Department - technology is a unit that comprises management, staff and other resources to provide technology support and related services for the district. The mission of the department is to provide solid and reliable technology to the students and staff of the district for achieving student academic excellence through the use of technology.

Superintendent's Office - the superintendent has the responsibility for providing direction for the district. The superintendent is the chief executive officer of the district. The superintendent's role is to ensure the development of procedures for implementation of policies adopted by the governing board.

Business Services - the overall responsibility of business services is to manage the accounting and financial services of the district. Business services is also responsible for providing direct support and assistance to the superintendent in the performance of the roles and responsibilities necessary to affect the districts various departments and programs. The mission of the district services is to manage the overall financial operations of the district, which includes: managing internal controls, creating and presenting financial reports to internal and external parties, ensuring that the official accounting records of the district are accurate and safeguarding the assets of the district to minimize the risk of financial loss.

Maintenance of Plant - the maintenance of the plant includes physical properties of the district. That means everything within the buildings and outside of the buildings that is part of the

school district. The mission is to provide the very best physical environment for the districts, students and staff.

Pupil Transportation – The transportation department is responsible for ensuring safe, efficient bus transportation for all eligible students to and from school and for students who use district provided bus transportation to participate in extracurricular activities. The mission is to ensure students are transported safely to and from school and extracurricular activities.

Human Resources - the Department of human resources is charged with the responsibility of providing services to the district's workforce. The mission of the department is to ensure that the best dates are recruited and retained for all district positions and that the district is in compliance with all federal, state and local laws.

Utilities and District Wide the utilities and district wide departments include all expenditures for all utilities within the district and district wide includes such other items as postage, liability insurance expenditures, etc. the mission is to ensure the district is operating effectively and efficiently. This department is constantly researching ways to reduce the necessary and frequent utility expenditures incurred by the district.

Career Ladder - the career ladder program is intended to increase student academic achievement by attracting and retaining high quality and talented teachers. The message of the program is to encourage students and educators to be more effective and successful in providing educators with professional development opportunities, support and compensation based on student achievement, instructional performance in instructional leadership activities.

L	Special Revenue Funds to Functions
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BOX L: Special Revenue Funds to Functions.

Expenditures are classified by fund, function and object. Examples of functions include instruction, instructional support and administration. A description of function codes follows:

Instruction - activities designed to deal directly with the interaction between teachers and students.

Support Services – Students and Staff - activities designed to assess and improve the well-being of students and to assist the instructional staff with the content and process of providing learning experiences for students.

Support Services – Administration - activities concerned with establishing and administering policy for operation of the district.

Operation and Maintenance of Plant Services - activities concerned with keeping the physical plant open, comfortable and safe for use, and keeping the grounds, buildings and equipment in your effective working condition and state of repair. These include the activities of maintaining safety and buildings, on the grounds and in the vicinity of the schools.

Student Transportation Services - activities concerned with conveying students to and from school, as provided by state and federal law. This includes trips between home and school and trips to school activities.

Operation of Noninstructional Services – activities concerned with providing noninstructional services to students, staff, and community.

Facilities Acquisition and Construction Services – activities concerned with acquiring land and buildings, remodeling buildings, constructing buildings, and additions to buildings, initially installing extending service systems and other in equipment and improving sites.

Debt Service – servicing the debt of the district, including pavements of principal and interest.

M	Special Revenue Funds to Objects
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BOX M Special Revenue Funds to Objects.

Salaries - amounts paid to both permanent and temporary district employees, including personnel substituting for those in permanent positions. This includes gross salary for personnel services rendered while on the payroll of the district.

Employee Benefits - amounts paid by the district on behalf of employees; and these amounts are not included in the gross salary, but are in addition to that amount. Such payments are fringe benefit payments and, while not paid directly to employees, nevertheless, is part of the cost of personnel services.

Purchased Services – services, which by their nature, can be performed only by persons or firms with specialized skills and knowledge. Services are purchased to operate, repair, maintain and rent property owned or used by the district. These services are performed by persons other than district employees. While a product may or may not result from the transaction, the primary reason for the purchase is the service provided.

Supplies – amounts paid for items that are consumed or worn out, or items that lose their identity through fabrication or incorporation into different or more complete units or substances.

Capital Outlay – transactions relating to the acquisition of items by purchase, lease or lease as prescribed by ARS 15 – 903C.

Other – amounts paid for goods and services not otherwise classified

District School - Unanticipated Consequences

Although the Arizona Constitution (Article X1, Section 10) specifies *"the Legislature shall make such appropriations, to be met by taxation, as shall insure the proper maintenance of all state educational institutions, and shall make such special appropriations as shall provide for their development and improvement"* and is called to provide a "general and uniform" public education for all the Arizona students, funding of public education at all levels have continued to suffer. A number of court cases have found the Legislature negligent in its duty. School districts struggle from year-to-year with the uncertainty surrounding the money that they will receive from the state's general fund.

In addition, the monies provided for school facilities have not met Arizona school district needs, and the Legislature has currently called a moratorium on adequately funding school facilities.

To add to school district problems, the Arizona Legislature continues to pass unfunded mandates that the school districts are required to meet.

While district schools struggle to provide the education that parents expect the Legislature has diverted education funds from the general budget to fund tuition tax credits for subsidizing private school education leaving underfunded public schools which educate over 80 percent of the state's students.

While offering the public an opportunity to reduce their state tax through donations to public schools, the program contributes to the inequality between districts because some districts receive considerably more contributions than others.

The Arizona Constitution provides for a state board of public education to oversee K-12 education. It is their responsibility to recommend and regulate the education programs. The Constitution requires the Legislature to provide the funding for those programs. Unfortunately,

and to the detriment of public education, the Arizona Legislature has a propensity to micromanage public education rather than leaving it to the education experts who are trained and equipped to do so

Budget cuts and unfunded mandates have forced districts to hire fewer teachers, thus increasing class size. Larger classes make it impossible to give students the individual attention some of them need. Some parents send their children to private, parochial or charter schools because classes are smaller there.

Cutbacks to classroom supplies and materials have resulted in teachers buying such items out of their own pocket.

Cuts in student support services have curtailed adequate personnel to meet needs of certain students (nurses, aides, tutors, etc.) It has also curtailed or eliminated art, music and sports programs.

Cutting state support for full-time kindergarten to half-time kindergarten has required districts to provide full-time kindergarten with funds from other sources. This amounts to "robbing Peter to pay Paul", and eliminates some other essential program support. A cutback to half-day kindergarten has also created a burden for parents that relied on all day kindergarten, especially single parents.

Inadequate school funding has placed Arizona in the enviable position of being 47th among the 50 states. It's hard to believe that industry will rush to a state that fails to adequately fund public education.

Tuition waivers, empowerment scholarships, and tax credits continue to drain money from the general fund, thereby reducing monies for children's services and district schools. Furthermore, the Legislature's failure to recognize the needs of families in poverty exacerbates districts problems when children from those families arrive at school.

The Governor's proposed budget eliminates or phases out the following aspects of district school funding.

1. Requires all remaining district chartered schools to revert to traditional district schools at the end of this academic year.
2. While the Governor's budget proposal provides more than \$55 million for a predicted 4.5 percent increase in charter school enrollment, it fails to appropriate funds for district enrollment growth.
3. Eliminates the career ladder program which was intended to increase student academic achievement by attracting and retaining high quality and talented teachers.

Section II: Arizona Charter School Finance

Historical context

The term “charter schools” was first brought into the public eye when delegates to the 1988 national convention of the American Federation of teachers proposed that local school boards and unions jointly develop a procedure that would enable teams of teachers and others to submit and implement proposals to establish autonomous public schools within their school buildings in order to enhance the learning of disadvantaged students.

Ray Budde had introduced the idea earlier that year in his publication “Education by Charter: Restructuring School Districts,” in which he suggested that faculty or administrators could develop charters for specific programs within schools; the idea of developing actual charter schools stemmed from his original proposal. However, Albert Shankar transformed the idea into creating entire charter-based schools while he was president of the American Federation of Teachers. Once again, the idea was to create charter schools, within district schools, to serve the needs of special students.

The federal charter school program was created in 1994, as an amendment to the Elementary and Secondary Education (ESEA) Act. The purpose of the program is to provide federal funding to state education agencies that manage the development and execution of charter schools within the USA. Today, charter school creation remains a hot topic in the states with arguments for charter schools equally opposed by arguments against them. The Education Commission of the States (ECS), identifies the following as pros according to proponents:

- ◆ *"Charter schools present students and parents with an increasingly diverse array of education options.*
- ◆ *The competition provided by charter schools forces school districts to improve the performance of their schools in order to attract and retain students and dollars.*
- ◆ *If managed properly, charter schools serve as laboratories for education experimentation and innovation. The easing of certain regulations can free teachers and administrators to develop and implement new learning strategies.*
- ◆ *Increased accountability for charter schools means that schools have to perform or risk closure. This extra incentive demands results.*

ECS further identifies the following cons according to the opponents:

- ◆ *"Because charter schools operate as a business, as well as a learning institution, they are subject to market forces that may eventually force them to close, depriving students of a continuous education.*
- ◆ *Charter schools sometimes segregate students along racial and class lines and fail to adequately serve students with disabilities or limited English proficiency.*
- ◆ *Accountability for student performance is difficult to measure and enforce in the burgeoning charter school movement. The usual complications of accurate student measurement are compounded by the often-conflicting demands of the state government's needs for accountability and the marketplace's desire for opportunity.*
- ◆ *The emergence of education management organizations are proprietors of charter schools creates 'pseudo-school districts' in which decisions are made far removed from the school."*

.....Choices and Schools - Charter Schools. Education Commission of the States www.ecs.org.

Arizona's legislation concerning charter schools is found in ARS section 15 183. Like the national legislation, Arizona's legislation was also passed in 1994 and states:

- A. An applicant seeking to establish charter school shall submit a written application to a proposed sponsor as prescribed in subsection C section. application, application process, application, frames shall be posted the sponsor's website and shall include the following, as specified in the application adopted by the sponsor
 - 1. A detailed education plan.
 - 2. A detailed business plan.
 - 3. A detailed operational plan.
 - 4. Any other materials required the sponsor.
- B. The sponsor of a charter school may contract with a public body, private person or private organization for the purpose of establishing a charter school pursuant to this article.
- C. The sponsor of a charter school may be in a school district governing board, the state Board of Education, the state board for charter schools, a university under the jurisdiction of the Arizona board of regents, a community college district, with enrollment of more than 15,000 full-time equivalent students or a group of community college districts with a combined enrollment of more than 15,000 full-time equivalent students.

NOTE: Most new charters are sponsored by the State Board for Charter Schools, a body appointed by the Governor. The State Board for Charter Schools has greater flexibility than the other sponsors. Although initially districts could also create charters, legislation passed last year prevents school district governing boards from creating new charters and, thus, preventing districts from getting more dollars per student, as charter schools do.

Charter schools are not bound by the same rules, regulations and laws that district schools are. The idea was to make them more flexible, innovative, and raise student achievement. The idea for Charter schools was advanced during the 1970s by the head of the AFT teachers union as a way to provide additional resources to children with special needs.

The charter school concept was subsequently picked up by those interested in providing government vouchers to public school students, however with polls consistently showing the majority of citizens were opposed to using government money for private and parochial schools, new terminology was used which would circumvent the Constitutional prohibition of vouchers. The legislation passed in Arizona created charter schools as public schools. The model developed is an unregulated business model.

"Arizona's regulations on charter schools are relatively lax" notes Anne Ryman in the AZ Republic , Nov. 17, 2012. "The state allows charters to seek exemptions from state laws that require schools to obtain competitive bids for goods or services. Nearly 90 percent of the state's charter holders have gotten permanent exemptions from the State Board for Charter Schools, according to the state's database."

With the waiver, charter schools are not required to put capital items out to bid as district schools do and are free to contract with anyone they choose, including the charter holders and charter employees, family friends or businesses and corporations that contribute money to

their operations. This provision circumvents the legal requirements and the operational transparency required of district schools.

They do not have elected school boards, but rather a board appointed by the charter holder. The charter board is not required to hold open meetings. Charter board members may consist of anyone designated by the charter holder, including friends and relatives of the charter school holder.

Charter schools do not need to employ certificated teachers. They are free to employ anyone who can pass a background check and has fingerprints on file.

Source of Revenue

The source of revenues for all charter schools in Arizona is shown in the following pie chart; the state general fund provides 84.4% of all charter school funding and the federal government provides 7.6% of all charter school funding. Gifts and contributions from individuals, companies, corporations and foundations make a 7.8% of charter budgets and intermediate revenues make up less than 1% of budgets.

Figure 16. AZ Charter Schools Revenue by Source of Funds, 2013-14

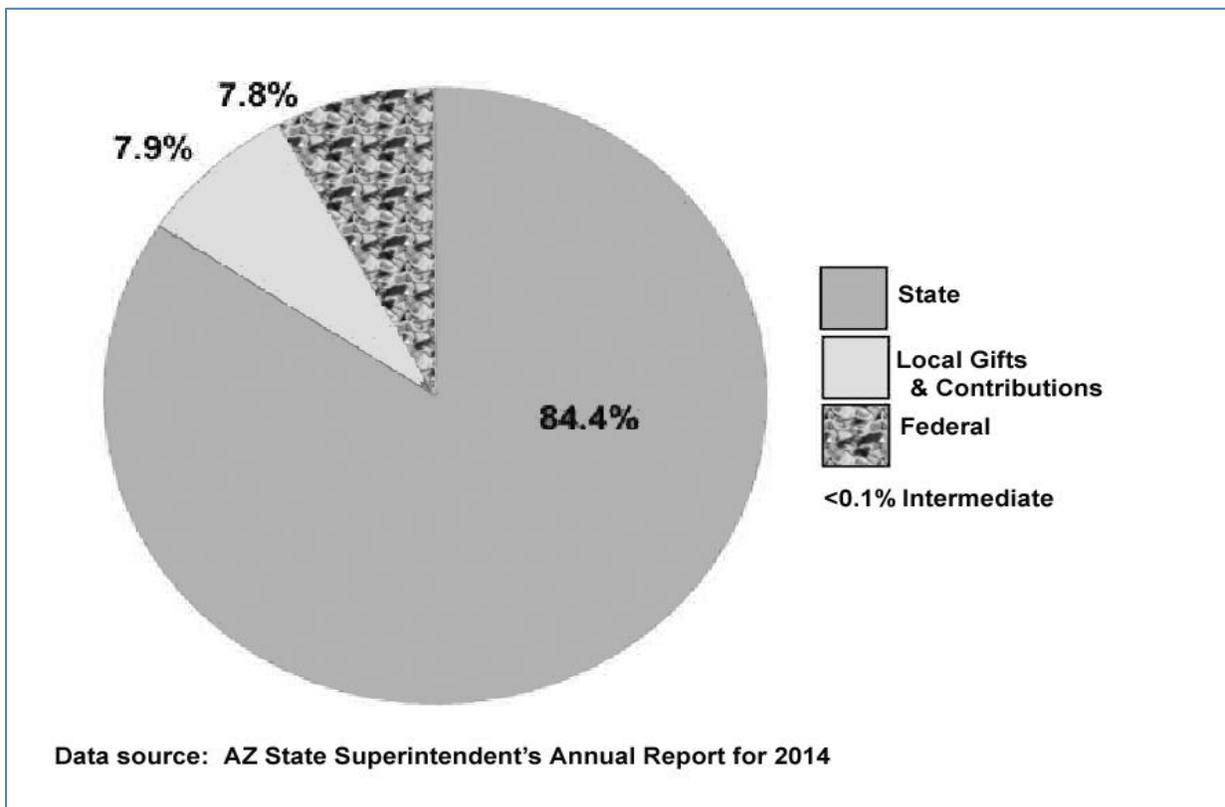
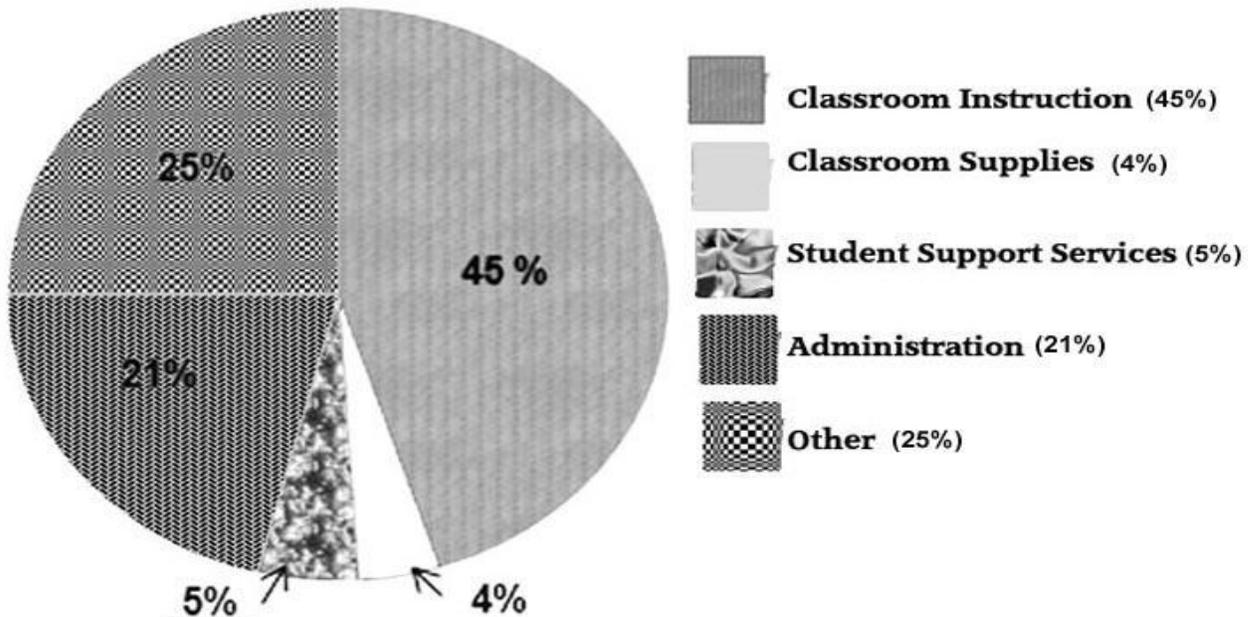


Figure 17 shows the expenditures by category for all the charter schools in Arizona during the 2013 – 2014 school years. The source of information is from the Superintendent of Public instruction annual report for the year 2014.

Figure 17. **All Charter Schools in Arizona
By Category of Expenditures, 2013-2014**



Data Source: State Superintendent's Annual Report for 2014.

According to a document from the AZ Dept. of Education and the Office of the Auditor General, the following are the budget categories for public school reporting:

Classroom Instruction: includes the activities dealing directly with the interaction between teachers and students. Included are the activities of aides or instructional assistants that assist in the instructional process.

Support Services: includes guidance, health, attendance and social work, psychological, speech pathology and audiology, occupational/physical therapy related services which contribute to a student's ability to succeed in the classroom.

Administration: includes district administration, school administration, fiscal services, human resources, planning, research, development, and evaluation, public information and any support services not coded in other categories. The activities of administration contribute to the overall climate and direction of the school while also providing the support for teachers to do their job in the classroom.

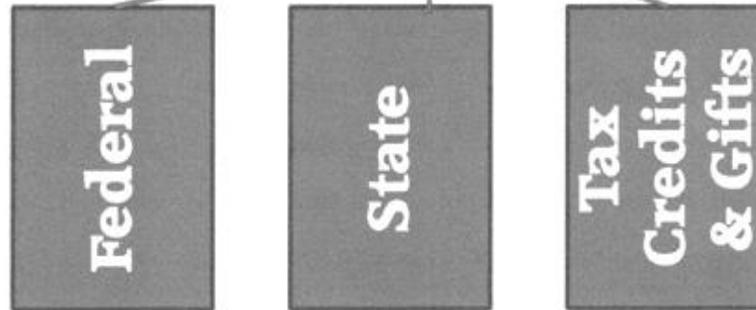
Other: includes library/media, instruction-related technology, instructional staff training, instruction and curriculum development, operation and maintenance of plant including security and safety, student transportation, food service operations -- which facilitate student safety and learning..

The following flow chart shows the source of revenue for charter schools and the expenditure categories as required by state law. You'll note that it is much simpler than the flow chart for district schools. This is by legislative design to free charter schools from the burdens of accountability imposed by ARS law for district schools. While giving charter schools a great deal more flexibility in how they operate, unfortunately it has made their operations much less transparent and open to issues of accountability and conflicts of interest in their operation.

Figure 16.

Charter School Fund Flow Chart

Source of Funds



Regular Education	Instruction Support Services Students Instruction Gen. Administration School Administration Central Services Operations & Maintenance Other Support Services Operation – non-instructional svc. Facilities Acquisition & Construct. Debt Service School sponsored extra curr. Activities School sponsored athletics Other programs
Special Educ.	Instruction Support Services Operations of non-instructional svc. Facilities acquisition & const. Debt Service Special Educ. Disability Title 8 Pupil Transportation Dropout Prevention Prog. Joint Career & Tech. Ed & Voc Ed Ctr. K-3 Reading Classroom Site Project Instr. Improvement Project Structured English Immersion Program Compensatory Inst. Project Federal & State Projects
Other	Special Educ. Disability Title 8 Pupil Transportation Dropout Prevention Prog. Joint Career & Tech. Ed & Voc Ed Ctr. K-3 Reading Classroom Site Project Instr. Improvement Project Structured English Immersion Program Compensatory Inst. Project Federal & State Projects

The Charter School budget categories are the same as those for district schools and as required by the Arizona uniform budget reporting process. As shown on the flow chart, boxes A, B, and C show the sources of charter school monies. Charter schools are funded using an equalization formula that is similar to that of traditional public schools. However, because charter schools do not have geographic boundaries and taxing authority, property taxes do not provide any of the funding that goes to charter schools. Charter schools get the majority of their funding from the state’s general fund.

Charter school funding is the total of the base support level (BSL) and a funding category entitled additional assistance. The BSL is computed in the same way as traditional public schools – weighted students multiplied the statutory base level. Additional assistance is provided in order to fund capital and transportation costs for charter schools. However, charter schools can use this money flexibly and are not limited in using it for capital or transportation expenditures.

Charters do not receive additional funds for teacher experience or performance-based compensation systems. Neither do charter schools qualify as isolated schools when computing their weighted student count, though they can qualify as small schools (under 600 students) for weighing of the student count.

In addition to the BSL funds, the following list from the Arizona Education Network (arizonaeducationnetwork.com) shows the additional funds available only to charters:

- ◆ "The state general fund provides additional assistance to replace capital and transportation funding provided to traditional school.
- ◆ "Charters can borrow funds from lending programs dedicated to charters. For more information, see the article entitled J.P. Morgan Chase creates \$325 million funding initiative for high-performing charter schools.
- ◆ "The Arizona charter school and incentive program provides funds to start new charter locations. This addresses the lack of funding by the state facilities, to which traditional public schools can turn when building schools. Note, however the Legislature has failed to fully fund this school district program.
- ◆ "In addition to state and federal grants for charter schools, there are many national foundations (Walton, Gates, Broad, Dell, etc.) awarding financial grants specifically to charters.
- ◆ "Buildings and land are owned or leased by the charter. If the charter sells capital assets, including land and buildings, the proceeds belong to the owner of the charter school or the holder of the lease. A significant portion of a charters budget is often paid to the owner of the building or land. A significant profit can be made by the holder of the lease."

D	Regular Education
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Box D. Expenditures for Regular Education

Expenditures for regular education vary from charter school to charter school, but the average for all Arizona charter schools for 2013-14, according to the State Superintendent Annual Report 2014, was 45 percent of the budget. This is in contrast to district schools who spent 52 percent of their budget for classroom instruction.

E	Special Education
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Box E. Expenditures for Special Education

The category, special education in the flow chart is really a misnomer. It is really instructional support services, operation of the facilities, and debt service. In terms of instructional support services (to help classroom teachers), the charter schools spend four percent on classroom supplies (including curriculum purchases) compared to two percent by district schools. In the category, student support services (including facilities rent and lease), the charters spend 25 percent compared to district schools eight percent. Leasing facilities is the largest part of the category.

F	Other Categories
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F. Expenditures for Other Categories

The other category addresses expenditures for special needs students. Figures 10 and 11 from Section I, part 1 shows the difference between charter schools and district schools as demonstrated by expenditures and reported on the State Superintendent's Annual Report, 2014. (NOTE: The chart is also reproduced at the end of this section.)

For whatever reason, charter schools have continued to enroll fewer special needs students than traditional schools. The Arizona Department of Education report entitled 10/1/2009 federal child count by PEA (public education agency) updated as of 2/1/10 indicated that nearly 93% of all special needs students in the state were enrolled in traditional public schools during the year. When calculating a simple average expenditure per student, traditional schools will average a higher cost per student than charters because they are getting more dollars for the special needs students. If the distribution of special needs students in traditional versus charter public schools were more evenly distributed, you would expect the simple per pupil average to be closer to that of traditional public schools.

Unanticipated Consequences:

Reports have been published exposing problems of waste and fraud as well as convictions and federal investigations resulting from the poor to nonexistent oversight of the charter schools. An article in the Washington Post May 6, 2014 revealed reports of more than \$100 million in proven or suspected public tax funds lost to waste, fraud, and abuse, and highlighting the need for increased transparency and accountability to ensure all students can attend great schools that meet their needs. The published news article and report followed a memorandum from the Department of Education's Office of the Inspector General stating that state officials are failing "to provide adequate oversight needed to ensure that Federal funds [were] properly used and accounted for."

Additional problems surfaced related to the lack of transparency in purchasing. An investigative report published in the Arizona Republic, Saturday, November 17, 2012 reports the following.

"The Arizona Republic reviewed thousands of pages of federal tax returns, audits, corporate filings, and records filed with the Arizona State board of charter schools. The analysis looked at the 50 largest nonprofit charter schools in the state as well, as schools, with assets of more than \$10 million. For-profit schools were not analyzed because their tax records are not public. The Republic's analysis found that at least 17 contracts or arrangements, totaling more than \$70 million over five years and involving about 40 school sites, in which money from the nonprofit charter school went to for-profit or nonprofit companies run by board members, executives or their relatives."

"This is crony capitalism', said Alexander Molnar, an education professor at the University of Colorado – Boulder, who has studied charter schools. This is greasing the palms of special interest and favored in the bills. A for-profit company paid by our charter school, even the company that operates most of the school, does not have to disclose spending details or how much profit it makes some board members who did business with their schools' told the Republic. They made a profit on the transactions. Others say they lost money. Some refused to comment."

An additional unanticipated consequence of the charter school movement has been to move toward the resegregation of public education. There are fewer lower-income students in charter schools than in district schools and fewer minorities than in district schools. A further critique of many charter schools is the selectivity in their admission requirements and high drop-out rates. David Berliner , Gene Glass and Associates note that

"Due to the autonomy that charter schools are granted they influence enrollments through a series of practices, such as placement testing, marketing, special curricular emphasis, and geographic site selection that attract and retain students from high socio-economic backgrounds. This practice, known as "creaming , seeks to skim off the highest performing students from traditional public schools. These practices restrict ethnic, social class and intellectual diversity, and contribute to their resegregation of public schools".

.....Fifty Myths and Lies That Threaten America's Public Schools, Teachers College Press. 2014. p. 25.

Berliner, Glass and Associates use the illustration of the Arizona charter school company, Basis Charter Schools, to illustrate the high selectivity for admission and the extreme drop-out rate among those enrolling in many charter schools. The authors note the promotion of "Basis Charter Schools as an example of what high-performing schools should look like. Although Basis is ranked in the "top 10" by Newsweek, the Washington Post and U.S. News & World Report, there is an extreme drop-out rate among those unable to survive to graduation from Basis. The authors provide the following *"enrollments by grade at the Basis Tucson Charter School for 2011–12:*

grade 5 -- --121
grade 6 -- -- 125
grade 7 -- -- 125
grade 8 -- -- 102
grade 9 -- -- 58
grade 10 -- -- 57
grade 11 -- -- 34
grade 12 -- -- 21

Resources and Acknowledgements:

American Association of School Administrators

www.aasa.org/uploadedFiles/Policy_and_Advocacy/files/SchoolBudgetBriefFINAL.pdf

Arizona Department of Education www.azed.gov

Arizona Department of Revenue www.azdor.gov

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Morrison Institute for Public Policy, Arizona State University www.morrisoninstitute.asu.edu

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The Washington Post www.washingtonpost.com

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