

Where Does Arizona Stand?

An Examination of School Funding Rankings

Executive Summary

School funding rankings are designed to measure and nationally compare preschool through 12th grade public education funding. They reflect the public education spending choices made by each state, providing important comparative data for policymakers. The first part of this Policy Brief seeks to address how Arizona's position relative to other states can fluctuate by examining the formula drivers in several commonly referenced school funding rankings that focus on current expenditures in the classroom: the National Education Association's (NEA) "Current Expenditures Per Pupil," Education Week's (EW) "Adequacy" and "Equity" comparisons, and the Office of the Arizona Auditor General's (OAG) "Percent of Dollars Spent in the Classroom."

To understand how Arizona's ranking in current expenditures can fluctuate, this Brief examines the methodological and data factors that influence states' rating outcomes. For example, Arizona ranked 49th in the nation in 2001 according to the NEA's annual "Current Expenditures Per Pupil" ranking formula. According to these data, Arizona spent \$4,884 per pupil on instruction, support services and non-instruction, compared to the national average of \$7,161.

Education Week's "Equity" and "Adequacy" rankings are determined by several weighted components, which are based upon the professional judgment of EW's staff, resulting in Arizona's 33rd and 49th positions, respectively, relative to other states. While the OAG's "Percent of Dollars Spent in the Classroom" ranking moves Arizona's position up to 47th primarily due to the type of data that is used.

The second part of this Brief examines capital expenditure rankings, an aspect of public education spending inherently different from those that rate current expenditures. While current expenditures include classroom spending, capital expenditures focus on building renovations, new building construction and new equipment purchases. This Brief analyzes the methodologies used in two different capital expenditure rankings: the National Center for Education Statistics (NCES) "Median Capital Expenditures per Pupil," and the Arizona Tax Research Association's (ATRA) "Capital Expenditures Per Pupil."

Similar inconsistencies to those found in classroom spending rankings can be found in rankings of capital spending. In 2001, Arizona ranked 1st in the country in capital expenditures, according to the ATRA's "Capital Expenditures Per Pupil" ranking formula. ATRA's ranking includes expenditures for the acquisition, construction, and replacement of facilities and equipment as well as interest on debt but does not include expenditures for school maintenance and operation. In the same year, Arizona is ranked 3rd in the country in "Median Capital Expenditures per Pupil," a ranking produced by NCES.

How states compare in school funding rankings are, in part, due to differences in student enrollment, student population, cost of living or differences in the data used or the methodology employed. Understanding these differences is essential to interpreting state-to-state comparisons and the relative position of one state to another. The rankings discussed in this Policy Brief are illustrative of the methodological differences, which are important to consider when drawing conclusions or making policy decisions based on any school funding ranking.

Introduction

Rankings matter in the public discourse about education. State rankings are a simple and powerful way to paint a succinct picture of Arizona's standing in public education. Some rankings, however, send contradictory messages and can confuse rather than inform the public. Getting to the bottom of these discrepant rankings is no small task. What follows is a straightforward explanation of state funding rankings; one of the most often used and misunderstood drivers in Arizona's public school debate.

In an effort to educate policymakers and the public, ThinkAZ analyzes six of the most commonly reported school funding rankings, offering no recommendation on which is most appropriate to guide public policy. Rather, this Policy Brief describes the contribution each can make to the public's understanding of education spending policies and identifies the risks in interpreting these rankings.

Research Methodology and Purpose

To simplify the presentation of this complex topic, this report uses 2001 data sources and expenditure category definitions used by the National Center for Education Statistics (NCES).

The NCES, part of the United States Department of Education, is the primary purveyor of school finance definitions and data collection guidelines. NCES has developed standard definitions to categorize revenues and expenditures for public preschool through grade 12 (P-12) institutions. Many states and research organizations turn to NCES for standardized collection methods to conduct state analyses. Nearly all of the foundational data and/or definitions used to calculate school funding rankings can be tracked back to NCES.

It is important to note that, for the very reasons discussed in this Policy Brief, there may be differences between the actual numbers presented here and numbers published in other reports. While this Brief, like publications from many other organizations, draws from NCES as a source of data, the data used in this report are from 2001, which may differ from other reports as data are updated or as new data become available.¹ It is also important to note that some organizations apply their own methodology to calculate their expenditure figures using NCES data (see Appendix A for a summary of key data elements used by common finance rankings). The purpose of this Brief is to raise awareness of some of the many differences that exist among education funding methodologies and rankings.

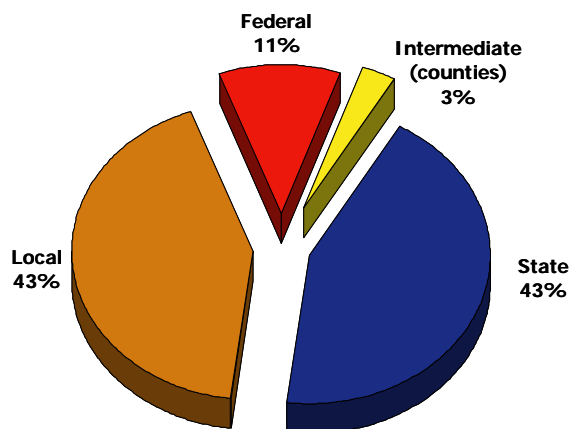
The Basics of School Funding Rankings

Revenues: What are the sources of funding?

For the school funding rankings presented in this paper, “revenue” generally refers to all monies collected for expenditures on P-12 institutions with the exclusion of bond revenues.² Revenues are not necessarily spent in the year they are collected, while expenditures are accounted for on an annual basis. Revenues are derived from three major sources:³

- **State:** includes both direct funds from state government and revenues in lieu of taxation.
- **Local:** includes revenues from such sources as local property and non-property taxes, investments and revenues from non-academic or support activities (See Figure 1).⁴
- **Federal:** includes direct grants-in-aid to schools or agencies, funds distributed through a state or intermediate agency and revenues in lieu of taxes.⁵

Figure 1. Revenue Sources for Arizona P-12



Source: National Center for Education Statistics, *Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2000-2001*

Expenditures: Where and how is money spent on public education?

Expenditures represent money spent on public education in any given fiscal year. Several types of expenditure categories are used to track where revenue dollars are spent. The three most common expenditure categories include:

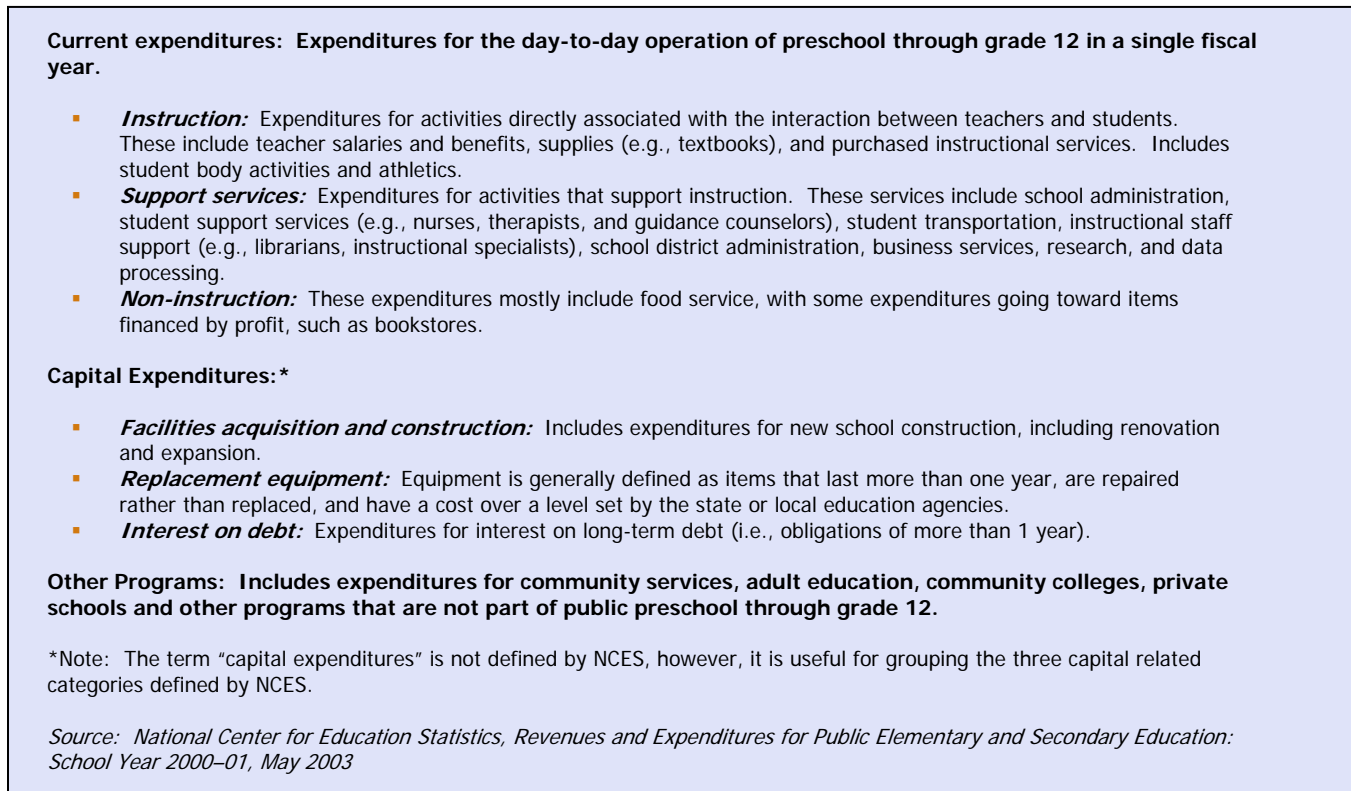
1. **Current expenditures:** spending related to the day-to-day operations of public P-12 education, is the most commonly used expenditure category for state rankings;
2. **Capital expenditures:** spending related to school building construction and maintenance;
3. **Other programs:** spending related to activities not directly related to public P-12 education, such as adult education (See Figure 2 for a detailed description of the expenditure categories).

According to NCES, researchers prefer to use current expenditures in the study of state education funding because this figure is immune to the large year-to-year fluctuations in capital expenditures and excludes the myriad of services P-12 institutions provide to their communities other than student academic instruction.⁶

Counting pupils and schools

Organizations that provide school rankings often utilize their own methodologies, which may entail a specific type of data and a specific formula. These different approaches may produce differences in the relative positions of states in each ranking. Understanding what is included in a ranking methodology is important to interpreting exactly what kind of information a ranking provides. Two basic components of most school funding methodologies are students and schools.

Figure 2. NCES Expenditure Categories and Definitions



Students and schools are not uniformly treated or included in all school funding rankings. For example, preschool and kindergarten education varies greatly from state to state. In Arizona, only preschoolers with disabilities are offered public preschool, and the state funds half-day kindergarten for nearly all schools.⁷ State comparisons based on expenditures per pupil could be skewed in states with a high proportion of half-day kindergarten students or in states that offer preschool only to disabled students.⁸ For example, in Arizona, kindergarten pupils are counted as a whole person or unit in some rankings but are only funded half-time. This may result in a reduction in the state's average student expenditure, and, depending on the methodology and data used in a ranking, may affect where Arizona falls in the ranking.

The types of schools and districts included in the calculations also differ by school funding ranking. District sponsored charter schools are

included in many rankings while other charter schools (e.g. non-profit, for-profit), vocational schools and special education districts may not be included in some rankings. This discrepancy is significant for Arizona because the state is home to the largest number of charter schools in the country. In 2001, approximately 7%⁹ of the student population was served by charter schools.¹⁰ In the end, some rankings may exclude a substantial portion of Arizona schools, students and funding, which may also impact Arizona's relative position among other states.

The Challenges of State to State Comparability: Interpreting with Caution

The purpose of school funding rankings is to establish a consistent starting point from which to evaluate the spending choices made by each state's policymakers. It follows then, that comparability is paramount to evaluating state policies. The challenge is to develop comparable rankings that account for non-policy factors that

contribute to interstate funding differences such as cost of living, student demographics and student population size.

The cost of living varies by state. It takes more money to provide the same level of educational service in states with higher costs of living. Unadjusted comparisons bias spending rankings in favor of more expensive states. For example, the cost of living in the Los Angeles area of California is 28.1% higher than the Phoenix area in Arizona,¹¹ and, according to an unadjusted comparison, California spends over \$1,700 more per student than Arizona.¹² This comparison, however, provides no insight into how much of the differential is due to California's higher costs in general, and how much is due to California's choice to spend more on education. According to one estimate, nearly half of the difference is due to California's higher cost of living and the remainder is related to state or local policy choices.¹³

The make-up of the student population may also differ by state. This point is relevant to comparative rankings because some students cost more to educate than others. For example, students with disabilities can receive more than four times the funding of the base per pupil amount.¹⁴ Relative state expenditures will be higher for states with a large proportion of students with higher education costs. Based on this same logic, the methodology of some school funding rankings assumes it requires more money to educate students in poverty. Therefore, these rankings adjust state finance estimates to account for differential proportions of poverty students by state.

Also, adjusting for differences in total student population across states promotes more accurate comparisons. This paper includes mostly per pupil statistics; however, it is important to illustrate how excluding this basic form of standardization can inhibit accurate comparisons. For example, Arizona ranked 20th

in total population in 2001;¹⁵ it is no coincidence then that Arizona ranked 23rd in total current education expenditures. Arizona's 23rd ranking is largely a function of the size of Arizona's total population relative to other states. Once adjusted on a per pupil basis, Arizona ranks as low as 49th in per pupil expenditures.¹⁶

Finally, there are some mathematical properties associated with any form of ranking. A state(s) will always rank first and a state(s) will always rank last. Therefore, the relative position of states does not provide sufficient information to explain the extent of interstate differences. The actual dollar amounts provide important information to assess the absolute difference between states on education spending. If there are minimal differences in actual dollar amounts, the difference in ranking may not be significant for comparison purposes.

Commonly Reported Rankings of Current Expenditures

This brief analyzes six school funding rankings by examining how the rankings are produced and interpreting what kinds of information each ranking conveys.

1. *Current Expenditures Per Pupil (National Education Association)*

There are several rankings that measure current expenditures per pupil. The *Current Expenditures per Pupil* ranking, configured and released by the National Education Association (NEA), the nation's largest teachers union, is an influential ranking in legislative circles. It is published annually in a report entitled, "Rankings & Estimates," along with a variety of other elementary and secondary school rankings.¹⁷ *Current Expenditures Per Pupil* includes money spent for instruction, support services and non-instruction. The ranking does not include capital expenditures and is standardized to account for differences in total state student population. However, the ranking

does not adjust for state differences in cost of living.¹⁸ The interpretation of *Current Expenditures per Pupil* is straightforward and provides a starting point for discussions of school finance policy in the current academic year.

The NEA uses one of two methods for reporting state data. The first method is collecting data through a voluntary annual survey. The second method is only applied if the NEA does not receive data from a state. In this case, the NEA estimates the data and asks the state to corroborate the estimation. All of Arizona’s expenditure data have been based on NEA estimates since at least the 1999-2000 school year.¹⁹ Arizona has not corroborated the 2000-2001 data. Estimates, by their nature, are less accurate than actual data.

NEA generally reports the data it receives from the states in the form in which it is submitted, even if the data do not match exactly with NEA’s own definitions.²⁰ Some of these differences involve the types of charter schools included and the distribution of expenditures. This issue does not affect Arizona directly because the state’s results are based on NEA estimates, but it could affect Arizona’s position relative to other states because small differences in dollar amounts can shift the state rankings.

In 2001, the NEA ranked Arizona 49th in the nation with \$4,884 spent per pupil on current expenditures. The national average was \$7,161 (see Figure 3).²¹

Figure 3. Current Expenditures Per Pupil, 2001*

United States	\$7,161
1. District of Columbia	\$12,345
2. New York	\$10,481
3. Connecticut	\$10,258
49. Arizona	\$4,884
50. Utah	\$4,475
51. North Dakota	\$4,426

*Unadjusted for cost of living

Source: National Education Association

2 and 3. Adequacy and Equity (Education Week)

Adequacy and equity in school funding are commonly used to guide school funding policies. Education Week (EW), an organization focused on national and local education issues, publishes a ranking that quantitatively assesses each state’s standing relative to its own method of defining these measures.

The *Adequacy* and *Equity* rankings are published in an annual report entitled *Quality Counts*. The rankings are based on complex calculations and weights intended to capture the extent to which states meet conceptualized conditions established by the report’s authors. On the one hand, the technical effort put into developing the two EW rankings simplifies a complex issue. On the other hand, the EW *Adequacy* and *Equity* rankings incorporate the judgments and opinions of those who developed the calculation to a much greater extent than the other state funding rankings. The methodology used by EW’s researchers is available to the interested reader for review.²²

The EW Adequacy ranking measures the extent to which states provide a basic level of education for students, thereby addressing the question, “Is the funding adequate for the education of a state’s students?” The *Adequacy* ranking is a weighted composite of four sub-components, each capturing a slightly different aspect of funding adequacy. The four sub-components are then combined to determine the state rankings.

The first component is current expenditures per pupil, similar to the NEA ranking, except the EW figure is adjusted for geographic cost differences and inflation. The second component is the percent of students in school districts with current expenditures per pupil at or above the national average weighted for how close the state is to the national average. School districts are not given additional credit for

funding above the national average but are penalized based on how far they are below the national average. These two components balance each other, the former gives the highest ranking to the state that spends the most per student, and the latter caps the top ranking at states that provide all students with adequate funding. The other components, growth in current expenditures over a decade and percent of state resources spent on education, count for less in the weighting formula.²³ See Figure 4 for a summary of the EW *Adequacy* ranking with sub-components.²⁴

The multi-faceted nature of the EW *Adequacy* ranking gives states with different strengths the ability to rank high. West Virginia, for example, ranked third overall but was only ninth in the current expenditures per pupil component. West Virginia’s high overall rank is due to consistently high rankings across the other categories of analysis: the greatest rate of annual change in expenditures from 1991-2000 (5% of overall grade) and the leveraging of a relatively large share of their state’s resources for school funding (15% of overall grade). Arizona’s overall grade in funding adequacy results from relatively low per pupil expenditures (40% of

overall grade) and remaining consistently below the national average on the remaining components (remainder of overall grade).

The EW Equity ranking measures the extent to which a state achieves balance in school funding across all school districts, asking the question, “Is school funding equal throughout the state?” Like the *Adequacy* ranking, the *Equity* ranking weights and blends four different sub-components to create the overall state ranking.²⁵

The EW *Equity* ranking is based on the existence of unequal property values across school districts and the calculation is designed to capture how well states distribute dollars to remedy the inequities.

Each state’s equalization effort, the dominant component of this ranking, measures the extent to which a state provides equal financial resources for each student through state funding. A state may equalize school per pupil funding by providing greater assistance to districts with lower taxable property values per pupil and less assistance to districts with higher taxable property values per pupil. Second, the wealth-neutrality score measures the

Figure 4. Education Week *Adequacy* Ranking and Sub-Components, 2001

Overall Grade							
		Rating	Grade				
1 New York		96.7	A				
2 New Jersey		95.1	A				
3 West Virginia		93.4	A				
48 Nevada		67.2	D+				
49 Arizona		64.9	D				
50 Utah		64.3	D				

40% of Grade		40% of Grade		15% of Grade		5% of Grade	
Average Education spending per student*		Percent of students in districts with per-pupil expenditures at or above US average		Percent of total taxable resources spent on education		Annual average rate of change in expenditures per pupil*	
1 New Jersey	\$9,762	1 New York	100.0%	1 Vermont	5.1%	1 West Virginia	3.2
2 New York	\$9,555	2 New Jersey	99.8%	2 West Virginia	5.0%	2 Idaho	2.8
3 Vermont	\$9,255	3 Wyoming	97.1%	3 Maine, Michigan	4.8%	3 Alabama	2.7
9 West Virginia	\$8,409	9 West Virginia	74.5%	US	3.7%	US	1.1
US	\$7,376	US	37.9%	42 Arizona	3.2%	44 Arizona	0.3
48 Mississippi	\$5,938	39 Arizona	13.4%	48 Alabama, Florida	2.9%	48 Florida	-0.4
49 Arizona	\$5,319	48 Utah	1.0%	49 Tennessee	2.8%	49 Alaska	-0.6
50 Utah	\$4,895	49 Florida	0.5%	50 Delaware	2.5%	50 New Jersey	-0.8

* Adjusted for regional cost differences

relationship between the property wealth of a school district and its total revenue from state and local sources.²⁶ The third component, the McLoone Index, indicates how close a state is to spending the median per pupil amount for the entire state. A score of 100% indicates that a state is currently spending the median per pupil amount statewide. The final component, the Coefficient of Variation, captures the disparities among school district expenditures. A lower score indicates less inter-school district disparity (i.e. equivalent expenditures), which will receive a higher ranking than a state with a higher score.²⁷ Arizona’s equalization efforts are ranked consistently in the middle, which explains the state’s average ranking. See Figure 5 for a summary of the EW *Equity* ranking with sub-components.

The two EW rankings have the advantage of bringing together many schools of thought on the conditions of adequate and equitable funding for public education. The blended methodology allows for various factors to weigh in on the final score and assess the financial choices of state and local leaders from several angles. Through weighting, the onus is taken off the reader to determine the relative importance of the various components. EW has essentially predefined adequate and equitable funding and the complexity of the rankings makes it difficult to assess the degree of subjectivity built into the methods. To find value in the rankings, the reader must agree with the assumptions made by EW when formulating these interstate spending comparisons.

Figure 5. Education Week, *Equity* Ranking and Sub-Components, 2001

Overall Grade							
		Rating	Grade				
1 Hawaii		100	A				
2 Delaware		88	B+				
3 Minnesota, Nevada		85	B				
33 Arizona		70	C-				
48 Montana		63	D				
49 New Hampshire		60	D-				
50 Illinois		57	F				
50% of Grade		25% of Grade		12.5% of Grade		12.5% of Grade	
State equalization effort		Wealth-neutrality score		McLoone Index		Coefficient of variation	
1 Hawaii	98.0%	1 Wyoming	-0.357	1 Hawaii	100.0%	1 Hawaii	0.0%
2 Vermont	87.6%	2 Alaska	-0.204	2 Nevada	100.0%	2 Florida	5.7%
3 Arkansas	85.6%	3 Nevada	-0.136	3 New Mexico	96.5%	3 West Virginia	6.3%
31 Arizona	62.9%	33 Arizona	0.097	18 Arizona	94.2%	48 Arizona	17.5%
48 New Jersey	46.8%	48 Idaho	0.160	48 Massachusetts	90.0%	49 Montana	19.1%
49 North Dakota	43.1%	49 North Carolina	0.180	49 Vermont	85.8%	49 Montana	19.1%
50 Illinois	42.5%	50 Maryland	0.257	50 Illinois	87.5%	50 Vermont	19.5%

* Adjusted for regional cost differences

4. Percent of Dollars Spent in the Classroom (OAG)

The Arizona State Legislature has tasked the OAG to determine the percentage of every dollar spent in the classroom by school district.²⁸

The OAG issued its first “Classroom Dollars” report in March 2002.²⁹ It uses the NCES definitions in its calculations in order to provide

national level comparability. “Classroom spending” represents the percentage of current expenditures used for instructional purposes. Classroom spending excludes support services (e.g. nurses, librarians) and non-instruction (e.g. food service, transportation) expenditures. In addition, current expenditures by definition exclude capital expenses (see Figure 6).

Figure 6. Basic Formula for OAG Classroom Spending Analysis

% of \$ Spent in the Classroom	=	$\frac{\text{Instruction Expenditures}}{\text{Current Expenditures}}$ (instruction, support, non-instruction)
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While the OAG uses the NCES definitions to categorize its data, the office expands the data collection sources beyond the NCES reports. NCES rankings are based on data from the Annual Financial Reports submitted to Arizona Department of Education by each school district. The OAG report includes five district level data sources: annual financial reports, district budgets, summary accounting data, a survey of the districts, and other district level data collected by ADE. The OAG does not directly audit the data, but the office does review the data for inconsistencies and follows up with the school districts to address potential errors.³⁰ The OAG report includes data for 209 of the state’s 233 school districts in its analysis of classroom spending.³¹

By expanding the data sources, the OAG determined that data reported to the NCES lacks sufficient detail to calculate the figures accurately based on their shared definitions. The OAG indicates its analysis of the disaggregated data from the school districts has resulted in a more accurate calculation of classroom spending percentages for Arizona (OAG February 2003).³²

In 2001, according to the OAG, 57.7% of current expenditures in Arizona were spent in the classroom. The national average for share of current expenditures in the classroom was 61.5%. The comparable NCES ranking is 57.1%. Based on NCES data, Arizona is ranked 49th in dollars spent in the classroom (see Figure 7); if OAG data is used for Arizona, the state’s rank moves to 47th.

Figure 7. Percent of Current Expenditures Spent in the Classroom, 2001

United States	61.5%
1. New York	67.9%
2. Maine	66.9%
3. Massachusetts	66.3%
49. Arizona	57.1%
50. New Mexico	55.6%
51. District of Columbia	49.7%

Source: NCES 2003

Unlike the other rankings, the percent of classroom spending is standardized on the school district’s budget and not on the number of students. Thus, percent of classroom spending data are automatically adjusted for geographic cost differences but not student characteristics. For example, a district with a high proportion of special education students will likely have a higher percent of dollars spent in the classroom. Furthermore, since teacher compensation comprises the bulk of this category, it could be argued that teacher salaries are the ultimate focus of this ranking.

Commonly Reported Rankings of Capital Expenditures

1. Capital Expenditures Per Pupil (Arizona Tax Research Association).

In 2003, the ATRA, a non-profit member organization that provides analyses and data on state and local government expenditures and tax revenues, published a report on state capital expenditures per pupil in 2001.³³ The ATRA report is based on state level data published by NCES.

Capital expenditures include the acquisition, construction and replacement of school facilities. They also include equipment and interest on debt (see Figure 2). Capital expenditures do not include the costs to maintain and operate school instructional programs on a daily basis.

In 2001, the national average for capital expenditures per pupil was \$1,214. Arizona’s capital expenditures per pupil totaled \$2,474, more than double the national average. Consequently, Arizona was the highest ranked state in the country (see Figure 8).

Figure 8. Capital Expenditures Per Pupil, 2001

United States	\$1,214
1. Arizona	\$2,474
2. Nevada	\$2,086
3. Alaska	\$1,538
49. Massachusetts	\$444
50. Kentucky	\$367
51. Rhode Island	\$348

Source: NCES 2003

There are a few points to consider when interpreting the ATRA data. First, the ranking is not adjusted for cost of living differences and second, capital expenditures per pupil can be volatile. For example, in a one-year span between 2000 and 2001, 12 states moved more than five positions in the rankings and Delaware moved up 21 positions. The drastic year-to-year swings in the rankings are due to the cyclical nature of capital projects. Arizona’s rapid growth, however, has kept its relative position high for over a decade.³⁴ Finally, capital expenditures on *new* schools do not directly benefit current students but are used to accommodate future students, particularly in high growth areas.

2. Median Capital Outlay Expenditures Per Pupil (NCES).

A different way to look at capital expenditures is to compare median values, as opposed to using a national average based upon the mean expenditures per pupil. A median value is the value at the 50th percentile of a distribution, regardless of the range of values. It can be a meaningful statistic, depending on the distribution. If a distribution has several values

that fall well outside of the majority of a distribution, they may skew a mean value in either direction. In these instances, expressing a median value may be more meaningful.

In 2003, NCES published a *Median per Pupil Capital Expenditures* report using 2001 data. The median figure for Arizona was \$1,006, which ranked third nationally (see Figure 9).³⁵

Figure 9. Median Capital Expenditures Per Pupil, 2001

United States	\$458
1. New Mexico	\$1,023
2. Florida	\$1,015
3. Arizona	\$1,006
4. Maryland	\$907
48. Maine	\$178
49. Rhode Island	\$163
50. Vermont	\$146

Source: NCES 2003

Conclusion

School spending rankings have a ubiquitous presence in policy debates on public education. In fact, the six rankings presented in this paper are just a sample of the many produced annually. The abundance of school funding rankings begs other questions such as, what is the ideal level of school funding for Arizona? Should Arizona’s goal be a top ranking, the national average, or some other point?

Finally, although rankings can be an informative source of information when interpreted correctly, they are silent on many meaningful policy questions about the impacts of public education funding. The amount of funding alone is insufficient to assess how school funding affects the quality of education offered to the state’s public school students. Further research on how money is spent is necessary to better understand the relationship between resources and results.





thinkAZ is an objective, non-partisan research institute dedicated to providing thorough and accurate information concerning key public issues in Arizona. ThinkAZ is a non-profit, Section 501(c)(3) corporation.

ENDNOTES:

- ¹ For example, in 2004, the most recent NEA estimate shows that Arizona spends \$5,347 per pupil, which is higher than the per-pupil expenditure figure presented here, and the national average has increased to \$8,208. This Brief uses 2001 data in order to present its analysis. NEA. (2004). 04rankings-update. Downloaded on February 15, 2005 from <http://www.nea.org/edstats/index.html>.
- ² Bond revenues could include revenue bonds or property tax backed bonds.
- ³ A fourth category, “intermediate,” includes revenues from sources that “operate at an intermediate level between local and state education agencies.” For example, county funds are considered intermediate revenue.
- ⁴ Non-academic or support activities include revenue derived from student activities, textbook sales, transportation and tuition fees, and food services.
- ⁵ Revenues in lieu of taxes are paid to compensate a school district for nontaxable federal institutions within a district’s boundary.
- ⁶ National Center for Education Statistics. (2003). Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2000-01. Downloaded on July 14, 2004 from <http://nces.ed.gov/pubs2003/2003362.pdf>.
- ⁷ Chapter 275, forty-sixth legislature, second regular session, authorizes the commencement of full-day kindergarten in certain schools beginning with the 2004-2005 school year.
- ⁸ Arizona schools receive additional public funding to meet the educational needs of disabled students. The additional funding increases Arizona’s per-pupil expenditures. In contrast, the counting of half-day kindergarten students as full students while only funding them for half-day decreases Arizona’s per-pupil expenditures. The impact of these biases on school funding rankings is unknown.
- ⁹ This percentage has been increasing. The most current figures show more than 8% of students attend charter schools in Arizona. Arizona Department of Education, October Enrollment report, 2004. Downloaded on February 8, 2005 from <http://www.ade.az.gov/researchpolicy/AZEnroll/2003-2004/Default.asp>.
- ¹⁰ Arizona Department of Education, October Enrollment report. 2001. Downloaded on February 8, 2005 from <http://www.ade.az.gov/researchpolicy/AZEnroll/2000-2001/Default.asp>.
- ¹¹ Data Masters. Downloaded on February 8, 2005 from www.datamasters.com.
- ¹² NCES, 2003.
- ¹³ Chambers, Jay G. (1998). Geographic Variations in Public Schools’ Costs. United States. National Center for Education Statistics. Downloaded on July 29, 2004 from <http://nces.ed.gov/pubs98/9804.pdf>.
- ¹⁴ In Arizona, for example, funding for pupils with moderate mental retardation is multiplied by a factor of 4.421 compared to funding for students with no disabilities (ARS § 15-943).
- ¹⁵ United States Census Bureau. (2003). Public Education Finances, 2001. Downloaded on September 30, 2004 from <http://www.census.gov/govs/school01.html>.
- ¹⁶ NCES, 2003. Rankings based on 2001 data.
- ¹⁷ Rankings & Estimates: Rankings of the States’ reports are available from the NEA online at <http://www.nea.org/>.
- ¹⁸ According to the NEA, no adjustments are made in order to present a common statistic without the potential for interpretive bias.
- ¹⁹ NEA estimations prior to the 1999-2000 school year were not examined.
- ²⁰ In cases where data from the states do not match exactly with NEA’s own definitions, the NEA requests that states also submit an explanatory note to be published in the document.

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- ²¹ For consistency purposes, all data presented in this paper are from the 2000-2001 school year. The discussion of the methodology behind each ranking is also applicable to the data for later years.
- ²² Education Week. *How Education Week Graded the States*. Downloaded on July 12, 2004 from http://www.edweek.org/sreports/qc04/article.cfm?slug=17sos_how.h23.
- ²³ Education Week. *Resources: Adequacy*. Downloaded on July 12, 2004 from <http://www.edweek.org/sreports/qc04/tables/resources-t1.pdf>.
- ²⁴ All of rankings presented in this report except adequacy and equity consider the District of Columbia to be a state, and therefore there are 51 total rankings. The District of Columbia is excluded from the *EW* rankings since it does not have a state revenue source for education (Education Week, Resources: Adequacy).
- ²⁵ Education Week. *Resources: Equity*. Downloaded on July 12, 2004 from <http://www.edweek.org/sreports/qc04/tables/equity-t1.pdf>.
- ²⁶ If there is little to no correlation (a score near 0.00) then a district's wealth is not related to the amount of resources available for education. A negative score means that higher local property taxes are related to lower state and local revenue (an equitable distribution within limits). A large positive score indicates more state and local revenue in higher property value school districts.
- ²⁷ Hawaii presents a unique challenge for the *EW* rankings because the state has only one school district. By definition, there is no inter-school district inequity, and all school districts rate equally on the adequacy measures. The single district structure explains Hawaii's "perfect" score on three of the four adequacy sub-components, ultimately resulting in its number one overall ranking.
- ²⁸ Arizona Revised Statutes §41-1279.03.
- ²⁹ Office of Auditor General. (2002). *Arizona Public School Districts' Dollars Spent in the Classroom*. Downloaded on July 19, 2004 from [http://www.auditor.gen.state.az.us/Reports/School_Districts/Statewide/2002_March/Classroom%20\\$%20Rpt.pdf](http://www.auditor.gen.state.az.us/Reports/School_Districts/Statewide/2002_March/Classroom%20$%20Rpt.pdf).
- ³⁰ It should be noted that NCES also checks for inconsistencies and asks ADE to address them.
- ³¹ Thirty districts were excluded since they were transporting, accommodation and technological education districts. In the following year, 2001-2002, four additional districts were excluded for having unreliable or incomplete data.
- ³² The OAG notes in its 2003 report that the disaggregated data is now being reported to NCES.
- ³³ Arizona Tax Research Association. "School district capital spending: We're #1." Newsletter. January 2003: 1+. July 19, 2004. Downloaded on July 19, 2004 from <http://www.arizonatax.org/january2003.pdf>.
- ³⁴ Arizona ranked second in the country in percent change in student enrollment from Fall 2001 to Fall 2002 according to NEA.
- ³⁵ It is interesting to note that in the same year, Arizona ranked 8th in total capital expenditures according to NCES. NCES. (2003). Downloaded on 3/17/2005 from <http://nces.ed.gov>.

Appendix A

Summary of Key Elements of School Finance Rankings

	NEA – Current Expenditure	Education Week Adequacy	Education Week Equity	Auditor General	ATRA
Data source	Collects data directly from source	NCES	NCES	Collects data directly from source	NCES
Did Arizona report data in 2000-01?	Yes (Pupils) No (Expenditures)	Yes (education spending per pupil, adequacy index, average rate of change) No (percent of taxable resources)	Yes (state equalization effort, McLoone index, coefficient of variation) No (wealth neutrality)	Yes (technological districts were not included)	Yes (All other capital expenditures) No (Replacement equipment)
Ranking based on current expenditures	Yes	Yes (education spending per pupil, adequacy index, average rate of change)	Yes (McLoone index and coefficient of variation)	Yes	No
Ranking based on instruction expenditures	No*	No*	No*	Yes	No*
Ranking based on capital expenditures	No	No	No	No	Yes
Includes district supported charters	Yes	Yes	Yes	Yes	Yes
Includes non-district sponsored charter schools, vocational and special education districts	Not consistent between states	Yes (education spending per pupil, percent of taxable resources, average rate of change) No (adequacy index)	No	Yes	Yes
Adjusts for cost of living	No	Yes (education spending per pupil, adequacy index)	Yes	Not Applicable (only includes Arizona)	No
Adjusts for poverty status and special education students	No	Yes (adequacy index) No (education spending per pupil, percent of taxable resources, average rate of change)	Yes	No	No
Adjusts for property value differences between school districts	No	No	Yes (state equalization effort, wealth neutrality, No (McLoone index, coefficient of variation)	No	No
Corrects for inconsistencies in primary data	No	Not Applicable	Not Applicable	Yes	Not Applicable
Unit of collection	State	State (education spending per pupil, percent of taxable resources, average rate of change), school district (adequacy index)	School district	School district	State

* Instruction expenditures are included as part of current expenditures. It is listed as “no” because the calculation is not based on instruction expenditures as subset of the current expenditure category.