Arizona's Reversal of Fortune to No Longer Require Educational Spending to be Tracked at the School Level: A Historical Legislative Analysis

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Abstract

Efforts to provide equitable and adequate resources to schools continue to be debated in state legislatures across the United States. In all cases, these conversations are significantly limited by the publicly available fiscal data. Researchers and policymakers recognize that money is generally allocated to districts that disperse the resources to schools, meaning that spending is more accurately determined at the local level rather than the state level. A historical legislative analysis reveals that in Arizona, policymakers opted to track educational spending at the school level in 1998. However, a decade later in 2008, the state legislature overwhelmingly passed HB2369 that reverted back to district level fiscal reporting. This decision seems counter-intuitive to the growing accountability mentality in many legislatures across the United States. As such, the authors contend that the Arizona decision is unique and provides a context for other state legislatures because fiscal accountability has gone from district level to school level and back to district level reporting.

Introduction

Most states began developing statewide educational data systems in response to federal demands for accountability in the 1980's; however, the No Child Left Behind (NCLB) Act (2001) raised the bar for reporting and accountability of student level achievement data. This propelled most states to revise their outdated information systems. The initial response from most states was to upgrade their student achievement data systems to meet the requirements of NCLB. Notwithstanding the improvements in student achievement records, questions remained about the utility of the school finance records, where district level reporting remains the standard approach. However, information about individual schools and, ultimately, about individual students, lags far behind (see Hertert, 1995; Jensen, Barnett, & Ritter, 2009; Roza & Hill, 2004; Schwartz, 1999; Stiefel, Rubenstein, & Berne, 1998). Detailed information is much more readily available about districts as the unit of analysis but very little if anything is known about individual schools within districts when it comes to fiscal resource distribution. While achievement data records continue to become more granular, fiscal records continue to be reported at the district level. The interconnectedness between fiscal resources and student achievement remains hotly debated (Hanushek, 1986, 2006; Jimenez-Castellanos, 2008; Odden & Archibald, 2001; Odden, Archibald, Ferminick, & Gross, 2003), yet this discrepancy in information reporting is important to consider as federal, state, and local lawmakers and educational leaders make choices about reporting requirements, especially as some states, such as Louisiana, consider asking for student level achievement data.

Importance of Study

Since most school finance reporting and thus research on the subject is traditionally conducted at the state or district level, it is generally assumed by the public that students within a school district are provided with equal access to educational resources including funding. This supposition may also be a result of focusing on federal, state and inter-district resource allocations while disregarding information on intra-district distribution of resources (NCLB, 2001; Rodriguez v. San Antonio Independent School District, 1973; Serrano v. Priest, 1971). However, research findings by Espinosa (1985), Odden (1992) Ladd, Chalk and Hansen (1999), and Gray, Barnett, and Ritter (2009) assert that the direction of financial reporting should transition from state compliance to a more localized, intra-district and school-based school finance analysis**.** In 1995, Hertert posited (p. 78) that "school-

level differences were generally greater than those measured at the district level." As a response to Hertert's seminal work and understanding that resources may be diffused differently within districts, more scholarly work focused on equity and adequacy vis a vis intra-district school finance emerged (e.g. Betts, Rueben, & Danenberg, 2000; Iatarola & Stiefel, 2003; Jimenez-Castellanos & Rodriguez, 2009; Roza, Guin, Gross, & Deburgomaster, 2007; Rubenstein, Schwartz, Stiefel, & Amoer, 2007). In short these researchers contend that, akin to achievement records at the classroom level, more focused fiscal records may allow for a better understanding of the impact of dollars on a student's education.

At the same time, the field of education has slowly moved towards school finance adequacy models trying to link inputs with absolute outputs (Clune, 1994; Odden et al., 2003; Rebell, 2002). Key questions remaining that need to be addressed are the following: What does the state invest in terms of fiscal resources, teachers and curriculum? And what does that investment produce in terms of student outcomes? However, a major obstacle for a statewide intra-district school finance analysis has been the continuous lack of school level per pupil financial data. Notwithstanding these obstacles, the state of Arizona considered and examined the utility of school level reporting, in essence piloting this effort as a model for other states to follow. The state of Arizona presents an interesting opportunity to examine why it went from district to school back to district fiscal reporting. As of this writing, the authors believe that Arizona is the only state in the nation that reverted back to district level fiscal reporting after fully implementing mandatory school level reporting. Notwithstanding this decision, many educators and researchers continue to debate the proper method of reporting school finance figures, yet the authors contend that the study of Arizona is unique.

Historical Legislative Analysis (1981-2008)

A historical legislative analysis (Thompson & Silbey, 1985) was selected because it provides concrete data to understand the political and legislative history of school level reporting in Arizona. The evolution of the law governing school financial reporting was investigated by analyzing 27 years (1981-2008) of legislative committee hearing transcripts and minutes, legislation, and roll call votes. Proposed, but failed changes in the legislation were also tracked and analyzed during the time period. The following sections provide a historical legislative analysis overview of Arizona's fiscal reporting from 1981 to 2008. More specifically, this article analyzes the legislative decisions that transitioned financial reporting in the state of Arizona from district level, to school level, back to district level.

From district to school level fiscal reporting

As shown in Table 1, in 1981 Arizona Revised Statute (ARS) 15-904 required all Arizona school districts to submit an annual financial report (AFR). This statute established for the first time a fiscal reporting requirement in Arizona although it has been amended multiple times. Most notably, ARS 15-904 was significantly amended in 1998 to require school level reporting as part of the legislation entitled *Students First* (Arizona State Legislature, 1998). The *Students First* bill was the legislature's response to an Arizona Supreme Court decision (Roosevelt v. Bishop, 1994). This court decision invalidated the existing capital outlay Arizona school finance system on the grounds that it did not meet the state constitution's requirement that K-12 education be "general and uniform" (Arizona Constitution, Article 11: 1). Moreover, *Students First* established the School Facilities Board (SFB), a mechanism that established minimum facilities standards and provided building renewal and new construction funds not dependent on the local property tax base. As part of *Students First*, a clause was inserted in ARS 15-904 that required school districts not only to submit an annual financial report, but to also submit an AFR for each individual school.

This decision was the beginning of mandated school level reporting in Arizona. In committee hearings on *Students First* the school-by-school AFR requirement received little public and recorded attention. A legislative staffer noted that the school-by-school requirement was "an attempt to obtain information on a school-by-school basis, not to bypass local school boards or districts" (Arizona House of Representatives Appropriations Committee Hearing minutes, March 12, 1998, p. 4). In another hearing, representatives from two organizations, the Arizona School Boards Association (ASBA) and the Arizona Association of School Business Officers (AASBO) expressed concern for the burden that school-by-school financial reporting would have on school districts. Despite this concern, the requirement was passed into law beginning with the 1998-1999 AFR. In essence, the school- by-school AFR in 1998-1999 was a replication of a complete district AFR for each school. Even though this legislative transition occurred relatively quietly and without much public debate, the actual practice of implementing proved to be more contentious as described in the following sections.

Chipping Away at School-by-School Level Fiscal Reporting

In 2002, only three years after being initially implemented, the statute was amended to limit the school-by-school AFR to three fields. The statute read that "the reporting by individual schools shall be limited to annual expenditures aggregated by major function for the maintenance and operation (M & O), unrestricted capital outlay, and soft capital allocation funds" (Arizona State Legislature, 2002). The committee transcript indicates that the ASBA and AASBO, as well as one district superintendent, were in favor of the bill as it reduced necessary paperwork. In 2004, the statute was again amended through House Bill (HB) 2104 (Arizona State Legislature, 2004) to suspend school-by-school reporting for fiscal years 2004-2005 and 2005-2006. HB2104 was primarily intended to fix the excess utilities funding structure within school finance, and the minutes only reflect discussion of the bill in relation to excess utilities. No formal comments were recorded in relation to the suspension of the requirement.

In 2006, the statute was again amended to extend the suspension of school-by-school reporting. The committee hearing testimony transcript (Arizona House of Representatives, Committee on K-12 Education, February 8, 2006) indicates that AASBO and ASBA believed that school-by-school reporting was burdensome to districts. The Arizona Department of Education also stated that the main consumers of school-by-school financial reporting were legislators, and the numbers of requests were few (Arizona Department of Education lobbyist, personal communication, February 23, 2009). Moreover, if financial data were needed or requested at this level the individual could be directed to the school district. Although the statute was enacted in 1998, school districts were not required to report school-by-school fiscal data from 2004 to 2008. As the legislature systematically reduced the requirements of the legislation requiring the school level reports, the question of whether the reports should be required at all returned.

Officially Eliminating School level Fiscal Reporting

After suspending the school level fiscal data requirement, it was not surprising that in March 2008 (Forty-eighth Legislature- Second Regular Session) the statute was again amended with House Bill 2369 to eliminate the school-by-school financial reporting requirement. The education subcommittee minutes (Arizona House of Representatives, Education Subcommittee, January 30, 2008) indicated that many school districts and organizations registered support for the elimination of school level fiscal reporting including the original two opponents of the school level reporting requirement, AASBO and the ASBA. The bill overwhelmingly passed both the House and Senate with very

little discussion. Only one senator dissented in committee. However, the senator reversed his opinion on the final vote and voted "yes" on HB2369 for a unanimous passage of the bill. The bill's sponsor touted the bill as "...another step in cutting costs and red tape for schools" (Arizona House of Representatives, Education Subcommittee, January 30, 2008), although no cost saving figures or evidence were found in the legislative record. In addition, there were indications in the hearing testimony from legislators and the Arizona Department of Education lobbyist that no one, including researchers, parents, and educators had requested the school-by-school reports.

Table 1 Chronological History of Educational Fiscal Reporting in Arizona

1981 Statute (ARS 15-904) required Arizona school districtsto submit an annual financial report (AFR)

*ARS 15-904 has been amended 17times between 1981-2008

1998 Students FirstInitiative (affecting ARS 15-904 among other statutes) results from *Roosevelt v Bishop* (1994).

*Amendment to ARS 15-904 requiredschool level AFRs

2002 Statute amended to reduce school level AFR from areplication of the entire district AFR by school to only three fields,including M&O, capital outlay, and soft capital allocation

2004 Statute amended tosuspend requirement for school level AFRs during fiscal years 2004-05 and2005-06

2006 Statute amended; schoollevel AFRs suspended indefinitely

2008 HB2369 passes; eliminates school level AFR requirement

2008 School level AFRseliminated through HB 2369

Conclusion

Based on the evidence presented herein, Arizona was ahead of the curve in terms of fiscal reporting when it adopted the school-by-school reporting policy in 1998. However, after years of systematically reducing the requirements for school level reporting through various amendments, opponents of school level reporting finally were able to eliminate this requirement in 2008 and revert to district level fiscal reporting - interestingly at a time when the federal government and other states continue advancing toward school level reporting and increased accountability at all levels of education (see Cibulka, 2009; Duncan, 2009). Arizona's "reversal of fortune", the decision of returning to district level reporting after implementing school-by-school reporting for ten years (1998-2008), is lamentable but not surprising. After examining the historical legislative data much was learned to share with other state policymakers and education officials contemplating such a transition.

First, it is important to underscore that school level fiscal reporting in Arizona would not have been on the table in 1998 without the impetus of a court case (Roosevelt v. Bishop, 1994). It was this court decision that made school finance in particular funding of facilities a relevant issue in Arizona at the time.

Moreover, Arizona had a political constituency (i.e. Superintendent of schools, legislators) that inserted school level fiscal reporting within the broad *Students First* bill (1998). However, key state educational organizations (i.e. ASSBO, ASBA) that represent educational leaders were not properly vetted in the discussion regarding ARS 15-904. Therefore, these organizations opposed ARS 15-904 claiming concern for the burden that school-by-school financial reporting would have on school districts.

Chambers, Shambaugh, Levin, Muraki, and Poland (2008) note the importance of gathering stakeholder buy-in before seriously moving towards school level fiscal data reporting. The legislative analysis leaves little doubt regarding the lack of support school-by-school reporting had among their fellow school/district administrators. The unpopularity stems from many sources. Perhaps most significantly, the former state superintendent, Lisa Graham Keegan, who pushed the Arizona policy politicized the clause that originally required school-by-school reporting by not vetting and obtaining stakeholder buy-in (i.e. educational leaders, organizations, legislatures), whether or not it was her intention. While the politics behind any policy decision influences the eventual outcome, what is apparent in this situation is that a forced mandate created by an elected political figure with term limits will not survive over time without building some consensus among key stakeholders including educational organizations and legislators. The consequence of not building stakeholder support created heavy skepticism on part of the educators in charge of implementing school level fiscal reporting. Further, the discontent of the school administrators encouraged them to work counter to the state policy.

Secondly, there was no clear articulation of why this change was needed or a design plan on how school level reporting was to be implemented. Reporting school-by-school level fiscal figures without clear goals, supportive procedures, and accountability measures for improvement is counterproductive. Such action creates a perceived meaningless mandate without incentives to school districts.

This apparent lack of preparation in design and implementation is partly what led to the elimination of school level fiscal reporting. For instance, there was not an appropriation attached to this requirement to support infrastructure, capacity building, or data-collection. Moreover, no clear approach for the use of the school level fiscal data was presented. Not surprisingly, after the superintendent of public education, Lisa Graham Keegan, left office, the educational organizations successfully lobbied the legislature to do away with this requirement by first watering it down in 2002, then suspending it in 2004 and officially eliminating it in 2008. Again, the bill's sponsor touted the bill as "...another step in cutting costs and red tape for schools" (Arizona House of Representatives, Education Subcommittee, January 30, 2008), although no cost saving figures or evidence were found in the legislative record.

In the end, the authors encourage states to move towards developing school level reporting *and* accountability systems. Such systems are beneficial in that they allow policymakers, practitioners, and researchers to determine more effectively the real, rather than perceived, disparities between districts, the disparities within districts, and the disparities between school options (for a thorough discussion of these benefits, see Fordham Institute, 2006). However, it is important to (1) obtain buy-in from not only political leaders but also educational leaders and organizations to assure follow through in the implementation of the policy and (2) take sufficient time to develop a solid design and implementation process with a clear purpose, sufficient funding, and defined consumers and users for the data.

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