REPORT TO THE

UTAH LEGISLATURE

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A Performance Audit
of
Class-size Reduction in Public Education

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Digest of
A Performance Audit of
Class-size Reduction in Public Education

The Utah Legislature requested our office examine class-size reduction spending practices throughout Utah's school districts. We were asked to determine if class-size reduction funds provided by the Legislature were used to reduce class size and whether districts were using local revenue to supplement class-size reduction funds.

School districts cannot document 59% of class-size reduction expenditures.

Many Districts Are Unable to Account for Class-size Expenditures. The Legislature requested that this audit determine how legislative appropriations for class-size reduction monies have been spent by Utah's school districts. The Legislature allocated over $344 million total since 1990 to reduce class size among Utah's school districts. In 1999 Utah's school districts received in excess of $56 million to support class-size reductions. Our audit determined that many districts commingle class-size reduction monies with other district funds and cannot account for specific expenditures related to class-size reduction efforts. Because 59 percent of class-size reduction monies are commingled with other funds, we cannot be sure school districts have spent class-size reduction funds as intended by the Legislature, in spite of the fact that **Utah Code** requires school districts to account for class-size reduction spending. Finally, the Utah State Office of Education (USOE) should have provided the districts with more direction and uniformity in reporting on class-size reduction monies.

About 28% of board leeway expenditures are for purposes other than class size.

Some Board Leeway Expenditures Do Not Comply with the Law. The Legislature requested that we determine if school districts were spending their locally generated revenue for class-size reductions. This portion of the audit is focused on expenditures from board leeway revenue—most of which comes from local property taxes. The Legislature intended board leeway revenue be used to help school districts reduce class size. From a sample number of school districts, we determined that about 40 percent of the board leeway revenues were spent for teachers and other appropriate class-size reduction purposes. However, 28 percent of the board leeway revenues have not been used for class-size reductions—but rather for teacher benefits, salaries, cost over-runs or to replace other district expenditures. We believe that much of this spending was not in compliance with the requirements of the law. The remaining 32 percent of leeway revenues cannot be accounted for because documentation is lacking. The school districts do not have documentation to support board leeway spending because the leeway revenue is generally commingled with other revenue and loses its identity.

Utah's class sizes have decreased significantly since 1990.

Class-size Reduction Funds Are Reducing Student-to-teacher Ratios. Analysis of Utah State Office of Education (USOE) data indicates Utah's school districts has reduced class size. Since 1990, the overall average class size has reduced by about three students. We selected 1990 as the base year for our analysis because that was the first year the Legislature began allocating significant dollars to reducing class sizes in Utah's schools. An analysis of Utah State Office (USOE) data indicates Utah's school districts have reduced student-to-teacher ratios by an average of 4.27 students in kindergarten and 3.21 in grades one through six. Our random sample of 225 kindergarten and elementary teachers indicates a 2.06 class-size reduction in kindergarten and a 2.72 class-size reduction in grades one through six. This is a significant reduction, but this report indicates more could be done to further reduce class sizes in Utah's schools. Analysis of two different measurements indicate class-size reductions have occurred.

Chapter I
Introduction

This audit of class-size reduction funding and expenditures was requested in order to determine if Utah's school districts have been spending state appropriated class-size reduction monies to reduce Utah's class sizes. In addition to specifically allocated class-size reduction funds, this audit also addresses whether school districts are spending their own board leeway money to reduce class sizes.

School Districts and USOE are not in compliance with *Utah Code* class-size reduction reporting requirements.

Section 53A-17a-124.5 of the **Utah Code** allocates funds for the purpose of reducing class sizes in Utah's 40 school districts. A total of about $344 million has been allocated to reduce class size since 1990. In 1999 Utah's school districts received in excess of $56 million to reduce class size. The **Utah Code** outlines specific accountability and reporting requirements for the Utah State Office of Education (USOE) and the school districts. We found partial compliance with certain subsections as well as non-compliance with other subsections of the statute. A random sample of 16 school districts revealed a wide variance of class-size reduction spending practices throughout the state. The variance ranges from thorough accounting practices to no accounting records.

Other class-size reduction funds are also available to the districts according to section 53A-17a-134. This section allows local districts to impose a board leeway levy which the state will match to a certain percentage. The board levy is imposed by a vote of the district school board and represents an increase in property taxes. Approximately $220 million dollars by all school districts has been raised over the life of the fund. Dollars raised and received from this levy are to be used for reducing class size as well as other district purposes, upon approval. We found many school districts cannot justify how they spent board leeway monies. Therefore, it is impossible to determine how some of the funds have been spent. A combination of district non-compliance and the USOE's failure to act as a guide has created a situation of uncertainty in accounting for many of these funds.

We found overall class sizes have reduced. Two different measurements confirm reductions have occurred.

Audit Scope and Objectives

This audit examines specific questions raised by the Legislature regarding the expenditure of class-size reduction monies as well as the districts' own monies. The Audit Subcommittee of the Legislative Management Committee requested that we

1. Determine if class-size reduction funds are being used by Utah's school districts as intended by the Legislature.

2. Determine if school districts are using local revenue to supplement class-size reduction funds already provided by the Legislature.

3. Determine if class-size reduction efforts have reduced student-to-teacher ratios.

Chapter II
Many Districts Are Unable to Account for Class-size Expenditures

The Legislature requested that this audit determine how legislative appropriations for class-size reduction monies have been spent among Utah's school districts. The Legislature allocated over $344 million total since 1990 to reduce class size among Utah's school districts. In 1999, Utah's school districts received in excess of $56 million to reduce class size. Our audit determined that many districts commingle class-size reduction monies with district funds and cannot account for specific expenditures related to class-size reduction efforts. Because 59 percent of class-size reduction monies are commingled with other funds, we are unsure school districts have spent class-size reduction funds as intended by the Legislature. This, in spite of the fact that **Utah Code** requires school districts to account for class-size reduction spending. Finally, the Utah State Office of Education (USOE) should have provided the districts with more direction and uniformity in reporting on class-size reduction monies.

School districts cannot justify 59% of class-size reduction expenditures.

In 1996 the Legislature allocated $30 million to reduce class size in the school districts. This $30 million was appropriated in 1996 over and above any regular or on-going class-size reduction funding. Consequently, this audit tested the expenditures of various school districts from funds received from this $30 million. Testing expenditures from this $30 million should be easily followed because it was a recent appropriation, yet it provides enough time for the districts to have spent the appropriation. Also, the $30 million was a significant infusion of funds; therefore, the districts should be able to track such a large amount.

We limited our testing to a sample of 16 of Utah's 40 school districts to determine how the school districts spent their portion of the class-size reduction dollars allocated in 1996. The Legislature requested we review the state's four largest school districts and the remaining sampled districts were selected throughout the state to represent small, medium, and large school districts.

Districts Commingle Class-size Reduction Funds

Class-size reduction expenditures are difficult to determine because districts commingle funds.

Most school districts commingle or combine class-size reduction funds with other school money sources, making it very difficult for districts to account for specific expenditures from class-size reduction monies. Combining class-size reduction monies with other school funds makes it difficult to determine if school districts spent the money in accordance with legislative intent. Of the 16 school districts in our sample, only 6 segregated class-size reduction funds from other school funding sources. This means only 6 of the 16 school districts maintained separate accounts for class-size reduction funding. The remaining 10 school districts commingle class-size reduction funds with other school finances, rendering the districts unable to account for class-size reduction fund expenditures through the use of their own records. Figure 1 shows how 16 sampled school districts accounted for their portion ($22.8 million) out of the $30 million allocated by the 1996 Legislature.

Figure 1. Segregated Vs. Commingled. 1996 Class-size Reduction Funds (For 16 Sampled Districts). 59% of funds spent cannot be accounted for because class-size reduction dollars were commingled with other school monies.

	Segregated Funds	Commingled Funds
Number of Districts	6	10
Dollar Allocation	$9.3 million	$13.5 million
Percent of Total	41%	59%

The above figure indicates that about 59 percent of class-size reduction funds for 16 sampled districts were commingled with other school funds. Consequently, 10 school districts commingling class-size reduction funds could not justify their class-size reduction expenditures. The remaining six districts segregated their class-size reduction money from other program funding sources and were able to account for most of their funds received.

Mathematical Model Reduces the Total Amount of Undocumented Expenditures

Some of the sampled school districts spent class-size reduction monies for the purpose intended—to reduce class size. However, some school districts did not have documentation proving their class-size allocation was spent for class-size reduction purposes. We were able to determine the number of teachers hired with class-size reduction monies through a mathematical model. In other words, a greater portion of the sampled school districts would have been unable to account for the number of teachers hired had we not employed the mathematical model.

To further understand how the districts spent their class-size reduction funds, we estimated expenditures for all 16 sampled. Using USOE statistical data and the mathematical model, we were able to estimate the number of teachers hired specifically for class-size reduction. Next, using salary data for each of the sampled districts, we estimated the amount of money spent on new class-size reduction teachers from the $30 million appropriated in 1996.

From earlier tests we already knew which districts segregated and which commingled their class-size reduction funds. For the 10 districts that commingled their funds, this test allowed us to estimate or document the portion of the expenditures used for class-size reduction. In general, school districts that segregate class-size reduction funds can account for the expenditures. Figure 2 below identifies the class-size reduction funds that are documented or undocumented for the 16 sampled districts.

Figure 2. Auditor Estimate of Documented and Undocumented 1996 Class-size Reduction Expenditures. Sampled school districts were unable to document $9.9 million in class-size reduction funds because they combine those funds with other district money sources.

Total	Segregated Funds	Commingled Funds	
	Documented Expenditures	Documented Expenditures	Undocumented Expenditures
$22.8 million	$9.3 million	$3.6 million	$9.9 million
100%	41%	16%	43%

This figure demonstrates that the sampled districts have documentation for $9.3 million of the total $22.8 million. In addition, by using our model, we were able to provide documentation for another $3.6 million of the total. Consequently, we have determined that more than $12.9 million of the $22.8 million has been spent on class-size reduction expenditures.

However, using the same analysis, we have not been able to document that the remaining $9.9 million was spent for class-size reduction purposes. We expect a significant portion of this money could have been spent on teacher aides, para-professionals, and temporary classrooms as allowed by the law.

Thus, we were only able to document that about 57 percent of the expenditures for sampled districts were for class-size reduction purposes. Figure 3 shows how sampled school districts could account for class-size reduction funds.

Figure 3. Percentage of Documented Vs. Undocumented Class-size Reduction Funds. 43% of class-size reduction funds were undocumented because sampled school districts did not keep records showing how class-size reduction monies were spent.

Documented Funds	Percent of Total	Undocumented Funds	Percent of Total
$12.9 million	57%	$9.9 million	43%

Using our model, coupled with the documentation of the 6 districts with segregated funds, we have determined that as much as $9.9 million of the $22.8 is undocumented—meaning 43 percent of the audited school districts' $22.8 million could not be verified as being spent on class-size reduction. While class-size reduction funding can be spent on teacher aides and mobile classrooms, the lack of documentation leaves the question open concerning how the money was spent.

School Districts and USOE Are Not Complying with the Law

School districts do not comply with reporting requirement in state statute.

Most sampled districts do not maintain the financial data to report on how class-size reduction funds have been used even though they are required to do so by state statute. In our opinion, most of the sampled school districts and USOE officials were not even aware of the reporting requirements established in state law.

The 1996 Legislature amended the **Utah Code** section 53A-17-124.5 on reporting of class-size reduction funding to include subsection (8)(a) and (b). Subsection (a) reads: "Each school district shall provide the State Board of Education with an annual accounting of how its allocation was used for class-size reduction during the school year." We believe this section requires each school district to maintain class-size reduction funds in a format that allows them to separately report how their allocation was spent. We have already reported that most of the districts in our sample have not followed this requirement of the law. Since they do not segregate class-size funding, they cannot account for the spending and, consequently, have not reported on how the funds were used.

The 1996 Legislature also added subsection (b) to this section of the **Utah Code** which reads as follows: "The state superintendent of public instruction shall provide the Legislature and the governor with an annual report on the program's progress and success, including the information received under subsection (8) (a)." In our opinion, the USOE partially complies with this request when they release student-to-teacher ratios each year. However, the USOE has not provided either the Legislature or the Governor with an annual report that details spending for any of the school districts.

In 1999 the Legislature again amended this section of the **Utah Code** by changing subsection (a) and (b). Subsection (a) now reads: "Each school district shall provide annually to the state superintendent of public instruction a summary report on the overall district plan for utilizing class-size reduction funds provided by the Legislature." Again, the statute gives the districts and the USOE the responsibility to maintain and report on the spending of class-size reduction funds.

However, subsection (b) was completely changed to read: "If the district has received new additional class-size reduction funds during the previous year, the district shall report data identifying how: (i) the use of the funds complies with legislative intent; and, (ii) the use of the funds supplements the district's class-size reduction plan." This subsection indicates the Legislature's interest in knowing not only how funds have been used but how the use of the state funds interfaces with local class-size reduction funds in support of the districts' overall plan.

We believe most districts currently could not respond to the requirements of the **Utah Code**. Further, we are not sure the districts or the USOE are fully aware of the legislative intent regarding the reporting of this data. We believe both the school districts and USOE should be accountable for providing documentation about the use of class-size reduction funds as required by the **Utah Code**. Accounting for class-size reduction dollars is necessary to ensure monies allocated are being utilized to their full potential. The USOE has the responsibility to provide direction to the individual districts regarding both the accounting and reporting of class-size reduction funds.

The USOE has not provided either the Legislature or the Governor with an annual report that details spending for any of the school districts.

USOE Needs to Provide Additional Direction

Districts have received little direction from the USOE regarding the accounting of class-size reduction funds.

Utah's school districts are required to report class-size reduction information to the USOE. **Utah Code** 53A-17a-124.5(8)(a) requires each school district to provide the State Board of Education with an annual accounting of how class-size reduction funds were used for each school year. The USOE has not provided the districts with adequate direction concerning both accounting and reporting of class-size reduction funds. Such direction is needed to provide uniformity among the districts. Consequently, the USOE has not tracked the expenditures of individual class-size reduction spending as required by law.

In 2000 the local districts received more than $59 million in state funds specifically for class-size reduction purposes. We are concerned about the inability of the districts to account for the spending of millions of class-size reduction dollars. The districts have received little direction from the USOE regarding the segregation or accounting of class-size reduction funds. Consequently, each district has it own method of accounting for these funds. This has led to the commingling of class-size reduction funds with other district monies, making it impossible to account for how the money went to reduce class size. During the course of the audit one USOE official explained that district representatives told him that "more stringent accounting standards set by the state, and in accordance with General Accounting Standards Board, would be welcome."

Finally, we believe the USOE has sole responsibility in providing uniformity and direction for school districts reporting of data. The fact that the districts are not aware of their obligation to report, as specified by the law, is a negative reflection upon the USOE. During this audit, when we asked USOE officials for the reports required by the law, we were frequently referred from one official to another. We were told that no uniform class-size reduction report from the districts existed outside of the class-size ratios.

USOE officials should be very concerned about their inability to account for class-size reduction expenditures.

This audit reports that at least $9.9 out of $22.8 million, or 43 percent appropriated in 1996 for class-size reduction remains unaccounted for. We believe USOE officials should be very concerned about the inability to account for class-size reduction funds. Since most of the sampled school districts are commingling, or combining class-size reduction funding with other money sources, how much of this money cannot be documented?

Extending our analysis, we believe as much as $147.9 million of the $344 million allocated to reduce class size cannot be documented.

We believe the USOE should insure that all class-size reduction funds can be documented. Accountability of class-size reduction funds is important if the USOE is going to be able to show whether allocated monies are actually reducing Utah's class sizes. If the USOE cannot provide this information, how will the Legislature determine if school districts have been appropriately funded for reducing class sizes? Without proper guidance and accountability, the question of whether the funds were spent appropriately will remain unanswered.

Recommendations:

1. We recommend the State Office of Education develop appropriate class-size reduction reporting guidelines for Utah's school districts to report all future class-size reduction monies.

2. We recommend school districts maintain separate accounting of class-size reduction funds showing how the funds are used to reduce class size.

3. We recommend Utah's school districts abide by class-size reduction reporting requirements as stipulated in **Utah Code**.

Chapter III
Some Board Leeway Expenditures Do Not Comply with the Law

The Legislature requested that we determine if school districts were spending their locally generated revenue for class-size reductions. This portion of the audit is focused on expenditures from board leeway revenue, most of which comes from local property taxes. The Legislature intended board leeway revenue to help school districts reduce class size. From a sample number of school districts, we determined that about 40 percent of the board leeway revenues were spent for teachers and other appropriate class-size reduction purposes. However, 28 percent of the board leeway revenues have not been used for class-size reductions—but rather for teacher benefits, salaries, cost over-runs or to replace other district expenditures. We believe that much of this spending was not in compliance with the requirements of the law. The remaining 32 percent of leeway revenues cannot be accounted for because documentation is lacking. The school districts do not have documentation to support board leeway spending because the leeway revenue is generally commingled with other revenue and loses its identity.

About 28% of board leeway expenditures are for purposes other than class size.

The 1990 Legislature passed a law which gave each local school board authority to levy the board leeway property tax to generate funding for class-size reductions. Most districts received their first revenue in the 1990/91 school year. Since 1991, 29 of the 40 school districts have levied all or a portion of their board leeway property tax which has generated as much as $35 million in annual revenue. The districts can spend other revenue for class-size reductions, but we know of no other local revenue larger than the total leeway that is dedicated to class-size reductions.

As much as $35 million annually has been spent from board leeway revenue.

This chapter examines spending during the first few years a local school district received board leeway revenue. It is important to examine spending during the first years when the largest infusion of funds occurs because this is the time when the districts obligate board leeway funds. Once tax funds are obligated, all future revenue may also be obligated. For example, if a district used its board leeway revenue to hire new teachers, that revenue is obligated not only for the current year but for all future years. Normal increases in leeway revenues are used to pay for increases in teacher salary or benefit expenses.

Over 300 New Teachers Hired Using Board Leeway Revenues

During the first few years that the 29 school districts implemented the board leeway property tax, they received more than $20 million in revenue. Our analysis indicates that as many as 317 new teachers were hired by the 29 school districts specifically for class-size reductions. The number of new class-size reduction teachers excludes increases in teachers due to growth, turnover, retirement, or federally funded programs.

Board leeway revenue resulted in as many as 317 new teachers being hired.

To obtain more detailed information, we limited our testing to the 16 school districts used in the class-size reduction sample (see Chapter II). However, only 10 of the 16 school districts levied the board leeway property tax. These 10 sampled districts hired 193 teachers with board leeway revenues during the first few years of implementation.

Since most of the districts commingle their board leeway revenue with other revenue, it was difficult for the districts to document how they spent board leeway funds. Consequently, we used three methods of determining how the board leeway funds were spent: available district records, a mathematical model and a property tax analysis.

First, we relied upon any available district records and, if documentation did not exist, we interviewed district staff. Often the staff had knowledge regarding board leeway expenditures but lacked documentation. The lack of documentation is understandable since most of the records are from the 1990/91 school year. However, in our opinion, many of the districts would have difficulty documenting current expenditures of board leeway funds since these funds are commingled with other revenues.

Second, we used Utah State Office of Education (USOE) statistical data, coupled with a mathematical model, to estimate the number of new teachers hired from board leeway revenue. Although very helpful, this model is only as reliable as the USOE statistical database. Some school districts challenged the accuracy of the USOE data. However, the challenges have generally been disagreements of a relatively small number of teachers, or we could not validate the district data. We believe the model is the best estimate of teachers hired for class-size reductions. Also, USOE officials believe their records are the most accurate representation of total teachers and student enrollment.

Finally, we have attempted to reconstruct the property tax history of each of the10 districts. This tax history is important because when some of the districts levied the board leeway property tax, they also eliminated other property taxes. The result is that some school districts may have traded a tax for a tax. This trade can have a significant financial benefit to some of the districts. Section 53A-17a-134 of the **Utah Code** which creates the board leeway tax also requires the state to guarantee the districts a minimum amount of revenue if the locally generated property tax is lower than what is prescribed by law.

Information from the school districts and the results of our model (using USOE statistics) allowed us to determine the following uses of board leeway revenue as shown on figure 4.

Figure 4. Expenditure of Board Leeway Revenue for 10 Sampled Districts. For first year of implementation, about 28% of total board leeway revenue was spent for purposes other than class-size reductions. The remaining 32% of the total expenditures spent from board leeway revenue lack documentation to validate how it was spent.

Area of Expenditure	Total Dollars (in Millions)	Percent of Total
CSR Costs (Teachers)	$6.3	40%
Non-CSR Expenditures	4.3	28
Lack of Documentation	5.0	32

About 40% of board leeway revenue was spent on teachers for class-size reduction.

Our model determined that the 10 sampled districts hired a total of 193 teachers for class size reduction with board leeway revenue. Multiplying salary and benefit data from each district times the number of teachers hired equaled $6.3 million or 40 percent of our sample districts' total board leeway revenue. From interviews with district officials and a review of local board minutes, we determined that about $4.3 million or 28 percent of districts' leeway revenue was spent on purposes other than class-size reductions. The expenditures made from the remaining 32 percent of the revenue lacked supporting documentation. Consequently, we have no knowledge how these funds were spent.

The fact that 28 percent of the sampled revenue was not spent on class-size reduction creates the concern of whether or not these districts complied with the requirements of the **Utah Code**. The law allows some districts that levy the tax to also receive a state guaranteed amount of money if the districts' tax base is not sufficient to generate a certain level of revenue. The 10 sampled districts received a total of about $4.8 million in state guarantees (31% of the total 15.5 million) for the first year of implementation. Consequently, we believe some districts may have levied the tax to obtain the state guarantee but then did not comply with the requirements of the law.

Some Districts Did Not Comply with Requirements of The Utah Code

The primary intent of the board leeway property tax is to generate revenue for class-size reductions. Section 52A-17a-134 (1) of the **Utah Code** establishes parameters for when a school district can spend board leeway revenue on costs other than class-size reductions. Five of the 10 school districts sampled spent a total of approximately $4.3 million dollars during the first year of implementation on costs not associated with class-size reductions. However, only one of these districts had complied with the following requirements of the **Utah Code**:

> ...if a local school board determines that the average class size in the school district is not excessive, it may use the monies for other school purposes but only if the board has declared the use . . . . in a public meeting prior to levying the tax rate; and . . . . certified in writing that its class-size needs are already being met and has identified the other school purposes for which the monies will be used to the State Board of Education and the state board has approved.

4 of 10 sampled districts did not comply with the *Utah Code* and spent money for purposes other than class size without approval.

The statue identifies three requirements that have to be met before a district can spend leeway revenue for other than class-size purposes. First, the local board of education has to determine that existing class sizes are not excessive. Second, the local board has to hold a meeting to hear public comments prior to levying the tax. Finally, the district has to report to the State Board of Education, in writing, how it plans to spend the money and obtain permission.

Our examination of the State Board of Education's minutes and discussion with board staff indicate that only one of the five sampled districts that spent leeway revenue on purposes other than class-size reduction requested and received permission from the State Board of Education. We believe the other four did not comply with the requirements of the statute and spent money on purposes other than class-size reduction without approval. Three of these five districts reduced other property taxes while levying the board leeway tax. We believe some districts traded a tax for a tax.

Trading a Tax for a Tax Does Not Meet the Intent of the Law

It appears that some districts implemented the board leeway tax to obtain the extra revenue from the state's guarantee.

A district official stated that one reason their district implemented the board leeway tax was to take advantage of the extra revenue they would receive from the state's guarantee. Some districts reduced certain property taxes while at the same time levying the new board leeway property tax. Consequently, it appears that some of these districts may have traded one tax for another tax to benefit from the state guaranteed monies. In our opinion, this is not what the Legislature intended when they created the board leeway law.

Our tests indicate that as many as 11 of the 29 districts may have traded a tax for a tax. The following figure indicates the total dollars received in state guarantees by the 11 districts.

Figure 5. Total Amount of State Guarantee Funds Received by 11 Districts Trading a Tax for a Tax. State guarantee generates 20% of the board leeway funds (from 1991-1999) for the 11 sampled districts.

Number of Districts	Local Leeway Dollars (Millions)	State Guarantee Leeway Dollars (Millions)	Total Leeway Dollars (Millions)	% of State to Total Leeway Dollars
11	$77	$20	$97	20%

11 school districts may have traded a tax for a tax.

These 11 school districts have received about $20 million in state guarantee funds since the 1990/91 school year. That amounts to about

20 percent of their total leeway revenue. By trading a tax for a tax, the districts benefitted from the extra amount received in the state guarantee funds.

Our test indicates that 5 of the 11 districts actually reduced other property taxes more than the amount increased by levying the board leeway tax. Consequently, total taxes were reduced. Five other districts had a zero tax increase, thus trading the exact amount of one property tax for the increase in the board leeway property tax. Finally, one district had a very slight increase, but officials from this district admitted trading other property taxes for the leeway property tax to obtain the extra revenue in the state guarantee. Only 4 of our 10 sampled districts are included in the figure above. Consequently, it is difficult for us to know specifically how each of these districts used the board leeway funds.

We believe the practice of trading a tax for a tax may violate the intent of the law.

We believe the Legislature expected the districts that levied the board leeway tax to have the total board leeway revenue (both the local tax and the state guarantee) available for class-size reduction. But for the most part, these 11 districts may have used a significant portion of their board leeway tax revenue to replace the obligation of transportation, recreation, debt service and other previously existing taxes. Thus, some of these districts may only have the state guaranteed dollars or about 20 percent of the total available for class-size reductions. Some of the sampled districts did not even use all the state guaranteed monies for class-size reductions.

Only 1 of the 11 districts (reported in figure 5) received approval from the State Board of Education to spend their leeway revenue for purposes other than class-size reduction. In our opinion, the practice of trading a tax for a tax violates the intent of the law and creates far less money for class-size reduction than the Legislature may have anticipated. Finally, some district officials felt this practice was not discouraged by the USOE.

Although many of the districts have done much with board leeway revenue to reduce class sizes, more could have been accomplished.

Although many of the districts have done much with board leeway revenue to reduce class sizes, we believe more could have been accomplished. In our opinion, USOE should have provided more direction to the districts generating board leeway revenue. It would not be difficult for the USOE to have the districts report on planned expenditures. Further, the USOE can issue guidelines and directives on how to apply the tax and use the revenue. Districts should have a clear understanding of how to apply the statute. We believe the districts' confusion about how to report and spend revenue, as well as trading of a tax for a tax, would not have been a significant problem had the USOE been more involved in providing direction to the districts.

Districts Need Clear Direction

The legislation creating the board leeway property tax allowed the local school boards a wide discretion to determine if they wanted to spend leeway revenue on class-size reductions or for other school purposes. Section 53A-17a-134 (1) of the **Utah Code** states: "... if a local school board determines that the average class size in the school district is not excessive, it may use the monies for other school purposes." The statute does not establish any standard for an average class size or an acceptable ratio that may lead districts to understand what is excessive. Consequently, the local school boards were given sole responsibility to make the decision if their existing class sizes were excessive.

Our analysis of the 5 out of 10 sampled school districts that elected to spend board leeway revenue for purposes other than class-size reduction indicates that some of the districts had what we believe to be very high student-to-teacher ratios. Figure 6 compares the student-to-teacher ratio for each of the 5 districts for the year before the tax was implemented, the year the board approved the tax, to 1999.

Figure 6. Comparison of Class-size Ratio for First Year of Board Leeway Spending to 1999. Some districts have relatively high class- size ratios for first year of board leeway.

Sampled Districts	Student-to-Teacher Class-size Ratio (1st year of Leeway) Grades 1-6	Student-to-Teacher Class-size Ratio (1998-99) Grades 1-6
A	29.98	23.54
B	27.82	24.21
C	26.27	24.16
D	24.43	21.68
E	24.09	15.31

Some districts appear more willing to use state funds than local funds for class-size reductions.

School district "D" requested and received approval to spend leeway revenue on purposes other than class-size reduction. The above figure indicates that district "D" had a class-size ratio which is among the lowest of the five districts. Conversely, districts A, B, and C all had relatively high class-size ratios when they implemented the board leeway tax and could have benefitted from further class-size reductions. Yet districts A, B and C spent their leeway revenue on teacher benefits and other district expenditures. This gives the appearance that they are unwilling to use their own locally generated funds to decrease class size but are willing to use state funds.

Determination of what is an excessive class size is difficult without a standard or criteria. All of the above districts have reduced class size since they first used their board leeway funds for purposes other than class size. In the five sample districts, the class-size ratios have reduced (from the time the board approved the leeway to 1999) by an average of more than 4.5 students per certified teacher. We believe this indicates these districts understood their class-size levels were high, and since this time, they have used available funds for such class-size reductions.

We believe that most of the class-size reductions shown in 1999 are a direct result of legislative appropriations to reduce class sizes. The state's appropriation has grown to more than $56 million annually (for all 40 school districts) to support class-size reductions. For example, the

Legislature appropriated $30 million (total annual increase to all districts) in 1996 for class-size reductions. In 1999 the five districts in our sample received a total of $12 million more annual funding from legislative appropriations specifically for class-size reduction.

The USOE should provide uniformity and direction regarding how to implement the law.

We understand the importance both the Legislature and the USOE place on the autonomy of local school districts. But one lesson that can be learned from board leeway spending is that the USOE needs to be more proactive in ensuring the intent of the law is being carried out by the school districts. The USOE should provide more uniformity and direction regarding how to implement the law. We believe the language in the law was correct to allow spending on needs other than class size because some districts may have sufficiently small classes and should not spend more money on unnecessary reductions. As evident by the issues identified in this report, the districts need more direction in implementing the requirements of the **Utah Code**.

We are not certain how many districts commingle board leeway funds but expect most cannot account for leeway spending. Further, we are not certain how many districts, similar to those in our sample, chose not to spend their leeway revenues on class-size reductions. Our review represents only a sample number of districts.

Recommendations:

1. We recommend that the Legislature make intent language clear in future legislation involving restrictions of leeway funds.

2. We recommend that if the Legislature considers approving future leeway property taxes the issue of a school district trading a tax for a tax be resolved.

3. We recommend that the Utah State Office of Education provide more direction and uniformity to districts regarding any future implementation of the statute.

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Chapter IV
Class-size Reduction Funds Are Reducing Student-to-Teacher Ratios

Analysis of Utah State Office of Education (USOE) data indicates Utah's school districts have reduced class size. Since 1990 the overall average class size have reduced by about three students. We selected 1990 as the base year for our analysis because that was the first year the Legislature began allocating significant dollars to reducing class sizes in Utah's schools. An analysis of Utah State Office (USOE) data indicates Utah's school districts have reduced student-to-teacher ratios by an average of 4.27 students in kindergarten and 3.21 in grades one through six. Our random sample of 225 kindergarten and elementary teachers indicates a 2.06 class-size reduction in kindergarten and a 2.72 class-size reduction in grades one through six. This is a significant reduction, but this report indicates more could be done to further reduce class sizes in Utah's schools. Analysis of two different measurements indicate class-size reductions have occurred.

USOE Data Shows Student-to-Teacher Ratios Have Been Reduced

There are fewer students per teacher in 1999 than there were in 1990.

USOE data indicates school districts have reduced the number of students per teacher since 1990. USOE statistics, coupled with our mathematical model, indicate there are fewer students per teacher in 1999 than there were in 1990. Student-to-teacher ratios for kindergarten classes have reduced 4.27 students per teacher and 3.21 for grades one through six. USOE data includes all school districts throughout the state; however, the numbers supplied by the school districts are not fully verified by the USOE. The measurement used by the USOE is student-to- teacher ratio information also includes part-time teachers and support staff. We focused on how the student-to-teacher ratio has changed since 1990 to determine the impact of monies spent by the Legislature. Figure 7 shows that school districts have reduced the number of students per teacher since the 1990/91 school year.

Figure 7. 1990 to 1999 USOE Student-To-Teacher Ratio Reductions. Utah's school districts have reduced 4.27 students per teacher in kindergarten and 3.21 students per teacher in elementary grades one through six since 1990/91.

	1990	1999	Class-size Reduction
Kindergarten	23.99	19.72	4.27
Elementary	26.85	23.64	3.21

The data above indicates that in 1999 there were fewer students per teacher than in 1990, indicating a reduction has taken place since the inception of class-size reduction funding from the Legislature. However, the USOE's lack of documentation makes it impossible to determine if all class-size reduction monies were specifically used to reduce class size in Utah's school districts. The lack of documentation leaves the question open—whether or not additional teachers could have been hired if class-size reduction funds had been utilized more effectively.

Random Sample Also Reveals a Reduction In Class-size Ratios

Utah's class sizes have been reduced.

Like the USOE data, a random sample of 225 kindergarten and elementary school teachers throughout the state shows class size has been reduced. Our measurement differs from the USOE's in that our data is a reflection of class size, whereas USOE data is a student-to-teacher comparison. The USOE data includes itinerant teachers (teachers assigned to more than one school within a district) and also counts teacher preparation time as class time, which our data does not.

Our sample shows that there are 2.06 fewer kindergarten students per class in 2000 than there were in 1990. We also found 2.72 fewer students per class in grades one through six. The purpose of gathering our own sample was to discover if a different data set would confirm USOE data. The figure below indicates the number of students per class has gone down between 1990 and 2000.

Figure 8. 1990-2000 Random Sample Class-size Ratio Reductions. Random sample indicates a ratio of 2.06 fewer kindergarten students per class and 2.72 fewer grade school students per class since 1990.

	1990	2000	Class-size Reduction
Kindergarten	23.99	21.93	2.06
Elementary	26.85	24.13	2.72

Our random sample also indicates a reduction in class size since 1990. Both USOE data, coupled with our random sample, indicate that class size reductions have taken place.

This audit has determined that the districts have hired hundreds of new teachers and created additional space for those new classes—both with class size reduction money and board leeway funds. However, this audit cannot conclude that all monies from both the legislative appropriations (for class-size reduction) and from board leeway revenues has been spent to reduce class size.

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Agency Response

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December 12, 2000

Mr. Wayne L. Welsh
Auditor General
Office of the Legislative Auditor General
412 State Capitol
Salt Lake City, UT 84114

Dear Mr. Welsh:

Following is the Utah State Office of Education's (USOE) response to the Legislative Auditor General's Performance Audit of Class-size Reduction in Public Education. We appreciate the positive interaction with your staff and their careful review. We acknowledge the reporting deficiencies the audit revealed and commit to resolving those weaknesses.

Overview

The audit can be summarized in the 3 findings highlighted in the digest : 1) Many Districts are Unable to Account for Class-size Expenditures; 2) Some Board Leeway Expenditures Do Not Comply with the Law; 3) Class-size Reduction Funds are Reducing Student-to-teacher Ratios.

Many Districts are Unable to Account for Class-size Expenditures

The audit found that "most school districts commingle or combine class-size reduction funds with other school money sources, making it very difficult for districts to account for specific expenditures from class-size reduction monies." A similar issue was raised by the recent audit of textbook and supply expenditures. USOE again commits to working with districts to improve reporting mechanisms that will allow the accounting of expenditures by revenue source. The audit noted that several districts already segregate class-size reduction funding. USOE will use those districts' practices on which to model a statewide reporting system.

Some Board Leeway Expenditures Do Not Comply with the Law

USOE does not encourage or condone the use of leeway revenue for purposes other than those designated by law. Each year, USOE reviews rates, uses, and changes in property tax laws with school business officials. In addition, the *State of Utah Legal Compliance Audit Guide* requires that the annual private audit of school district finances "verify that all other levies are . . . expended for the purpose(s) levied." USOE will redouble its efforts to ensure that district business officials and their private auditors are aware of the law surrounding the use property tax revenues and their responsibilities in following that law.

Class-size Reduction Funds are Reducing Student-to-teacher Ratios
Perhaps the most important finding of the audit is that class size reduction funding is being used successfully to reduce class sizes. And, although the auditors were unable to determine where a portion of class size funding was spent, they concluded that they "expect a significant portion of this money could have been spent on teacher aides, para-professionals, and temporary classrooms as allowed by the law."

USOE Audit Concerns

While the Utah State Office of Education concurs with the general findings of the audit, the Office has some concerns with certain statements and conclusions made in the study. Those concerns include what the Office perceives as possible misleading statements and the overstating of undocumented expenditures.

Misleading Statements
USOE believes that the reference to a total amount that was appropriated for class size reduction could be misleading. On the first page of the audit digest (and repeated again on pages 3 and 10 of the exposure draft), the auditors refer to a figure of $344 million having been appropriated by the Legislature for the purpose of reducing class sizes. Also on page 1 of the digest the auditors write: "In 1999, Utah's school districts received in excess of $56 million to reduce class size." The use of total amounts may lead the audit reader to believe that the entire amount could have been used to further reduce class sizes.

Of the amount mentioned ($344 million), only $66.4 million over the ten years audited, or 19.4%, could have been used to reduce specific class sizes. The remainder of the funding had to be used to *maintain* class sizes as reduced previously rather than reduce them further. For example, of the amount the auditor says was appropriated for class size reduction in 1999 ($56 million), only $9 million could actually be used to further reduce class sizes over the previous year. The remainder (approximately $47 million) had to be used to maintain the previous year's class sizes.

The auditor understands this concept as evidenced by the statement made on page 11 of the exposure draft: "Once tax funds are obligated, all future revenue may also be obligated. For example, if a district used its board leeway revenue to hire new teachers, that revenue is obligated not only for the current year but for all future years."

USOE hopes that the auditor's use of an accumulated amount for class size reduction does not mislead readers into believing that a greater amount of funding was available to reduce class size than there actually was.

Overstating the Problem

The auditors only considered teacher salaries and benefits as class size expenditures. There are other legitimate expenditures associated with class size reduction – such as new space for students, equipment and supplies for new classrooms, and administrative costs. Furthermore, the law allows districts to "use nontraditional innovative and creative methods to reduce class sizes with this appropriation." The audit does not consider those possible nontraditional methods to reduce class size. The consideration of these other legitimate class size reduction costs would have significantly reduced the amount of funding that the auditors could not directly attribute to class size reduction efforts.