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School District Financial Management: Personnel, Policies, and Practices

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This study examines financial management in California school districts within the context of a state-controlled school revenue system. The central questions include:

1. To what extent are California school districts fiscally healthy?
2. How significant are external factors, such as enrollment changes and revenue levels, in determining the fiscal health of a school district?
3. How do personnel qualifications, management policies, and fiscal practices vary across districts in California and are those related to districts' fiscal health?

Summary of Key Findings

The timing of this study has implications for interpreting its findings. During the period for which state and local fiscal data were collected—2002–03 to 2004–05—California's financial situation was particularly volatile. In 2005–06, the year the survey was administered, the state implemented new regulations related to fiscal oversight. In addition, the year marked a turning point in a two-decade increase in student enrollment, a matter of import for the affected districts because the amount of revenue provided in California is closely tied to the number of students a district serves.

Based on the measure created for this study, slightly more than half of California school districts are fiscally healthy

California's fiscal accountability system considers a district's short-run financial condition to determine whether the district is able to meet its obligations (positive certification), may not be able to meet such obligations (qualified certification), or will not meet its obligations (negative certification). Based on this measure, from 2002–03 to 2004–05, 88% of districts received a positive certification, 7% were qualified, and 5% were given a negative certification.

The authors, in consultation with California's Fiscal Crisis and Management

Study Methods

The authors use data available from state and local sources, augmented with a survey of chief business officers (CBOs) in California school districts.

To assess the fiscal health of districts, the authors use data from California's system for identifying fiscally troubled districts. They then augment that information by developing a measure of district fiscal health that considers patterns of deficit spending and financial reserve levels. This measurement tool is used to evaluate the short-term financial health of all districts in the state for the period from 2002–03 to 2004–05.

The development of the CBO survey was informed by a review of existing research on school district financial management, an examination of professional standards (particularly in Florida and Texas), and a consideration of California guidelines related to fiscal solvency. The survey was completed in the spring of 2006 by 135 CBOs in a stratified sample of California districts. The authors oversampled districts that had been identified as having fiscal problems.

The study uses comparative statistics to test for relationships between the health of districts, the survey responses from the sample districts, and state data. Where appropriate, the study also applies regression analysis to examine relationships between the fiscal health of all California school districts and selected district characteristics.

Getting Down to Facts

A research project designed to provide California's policymakers and other education stakeholders with comprehensive information about the state's school finance and governance systems, and lay the groundwork for a conversation about needed reforms. The project was made possible by grants from the Bill & Melinda Gates Foundation, the William and Flora Hewlett Foundation, the James Irvine Foundation, and the Stuart Foundation.

This summary was prepared by IREPP.

For the full text of the author's research report and the other studies in this project, see: **www.irepp.net**

For background on California's school finance system, see: **www.californiaschoolfinance.org**

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Declining enrollments present fiscal challenges for school districts

State allocations based on enrollment provide an advantage for growing districts because they receive additional funding based on an average per-pupil rate but incur costs with a marginal increase, thus generating extra funds. Losing funding due to declining enrollment can have the opposite effect: districts lose funding at the average per-pupil rate; but they may be unable to reduce costs at this same rate, which threatens fiscal solvency.

The impact of changing enrollment takes on greater significance as more California districts anticipate declines. Slightly more than half of the business officers surveyed expect enrollment to decline, 16.4% predict no change, and 32.1% expect an increase.

Assistance Team (FCMAT), modify the established state measures to also consider deficit-spending patterns and the level of funds held in reserve over the three years examined. With this new rubric, they categorize all districts in the state as healthy, marginal, or unhealthy. Only 53% of districts statewide meet the fiscally healthy criteria. That compares to 18% designated as unhealthy and 28% percent as marginal. Data are unavailable for 1% of districts.

Three external conditions—district type, enrollment, and revenue levels—significantly influence fiscal health

The authors analyze their fiscal health measurement against a variety of district characteristics, including district type (elementary, high school, or unified), percent of students in poverty, percent of English learner students, district size, district per-pupil revenues, and a measure of district enrollment growth or decline. These analyses find:

- Unified districts (K–12) are more likely to fall in the marginal or unhealthy categories than elementary or high school districts.
- Declining enrollment districts are more likely to be fiscally unhealthy, and growing districts are more likely to be healthy.
- Districts with higher revenues are more likely to be fiscally healthy, and this relationship is strongest among districts with higher levels of general-purpose (revenue limit) funding.

California school district personnel, policies, and practices reflect some notable variations, including some that relate to fiscal health

The survey of chief business officers (CBOs) was designed to identify personnel characteristics and practices related to governance and decision-making, accounting, compensation, resource allocations, and maximizing resources. The authors find a statistically significant relationship between some reported practices and their categorization of school districts as healthy, marginal, or unhealthy.

CBOs consistently report appropriate qualifications and financial procedures

The majority of the CBOs in the sample hold at least a bachelor's degree, most have a degree in a finance-related field, and almost all report that they follow appropriate financial control procedures. They also report using cost-cutting strategies, such as "piggyback bidding" to cut the costs of some purchases. In addition, respondents are overwhelmingly positive about the use of high-quality estimating and budgeting procedures, but a substantial minority (30%) report that their enrollment projections are not necessarily accurate.

Respondents also generally report meeting professional standards for collective bargaining procedures and having positive relationships with their districts' primary teachers' union. The majority say their district follows recommended bargaining practices by negotiating total compensation (salary plus benefits) and having a hard cap on the per-employee cost of health and welfare benefits.

Districts are less positive about some aspects of facilities management and revenue raising

While respondents largely report that their district's financial software met basic accounting requirements, they were less likely to say it provided capital-project tracking or financial reporting that was easy for the school board to understand. They were also less positive about the facility maintenance systems in place in their districts.

CBOs report confidence in their success at maximizing state, categorical, and federal funds; but they are less sure about maximizing interest income and generating revenue from private sources, such as foundations and business partners.

Fiscally healthy districts have stable leadership and sufficient administrative staff

Data from all districts and from the study sample indicate that fiscally healthy districts are more likely to have stable administrative leadership. Statewide, data indicate that 39% of districts had the same superintendent for the four years of the study. This was the case in 42% of fiscally healthy districts compared to 25% of unhealthy districts.

Based on survey responses, the level of CBO training and education is not clearly related to fiscal health, but healthy districts are more likely to have had the same chief business officer for 10 years or more. An examination of state data regarding staffing ratios showed that healthy districts in the sample tended to have more administrative staff.

Fiscally healthy districts pay attention to training, controls, and contracts

The vast majority of survey respondents say their school board members receive some training on school district budgeting and finance, but only a quarter characterize that training as being of high quality.

CBOs vary more on questions regarding how strategically their districts make financial decisions. Substantial proportions say their district, to a great extent:

- Follows a strategic plan (31%);
- Links its financial plan and budget to priorities (37%);
- Regularly adjusts its budget to meet priorities (42%); and
- Considers goals closely when implementing a new program (47%).

Conversely, between 20% and 35% of respondents answer in the negative regarding the same practices. And less than a quarter of CBOs say their district is able to cut programs that do not further district goals.

The authors' analysis shows that CBOs in fiscally healthy districts are more likely to report that they have well-trained board members, high-quality policies, and the ability to cut programs that are not well aligned with their goals. They more often report analyzing significant expenditure processes to ensure appropriate controls and scrutinizing contracts, financial negotiations, and expenditures for unusual cost fluctuations. In preparation for collective bargaining, fiscally healthy districts are more likely to develop high-quality cost estimates and invest in training for bargaining team members.

Fiscally unhealthy districts, on the other hand, are more likely to report that their financial software does not track capital projects or produce reports that are easily understood by board members.

School-site financial management practices are associated with district fiscal health

The survey asked a number of questions regarding the district's role in school-site financial management and resource allocation. The vast majority of CBOs report that their district clearly communicates to principals the scope of their financial authority, and three-quarters say principals are held accountable for sound financial management. However, less than 60% say that principals receive training in these areas to a good or great extent, and less than 40% say the same is true for groups such as school site councils. Respondents also indicate that their districts' site-level allocation policies generally place more emphasis on district control and guidelines than on site flexibility.

The authors find a positive relationship between the fiscal health of districts and respondents reporting that they pay attention to school site leaders' capacity for financial management, expect principals to link fiscal decisions to student performance, and provide schools with budget flexibility.

Lifetime health benefits for retirees create financial strains for fiscally unhealthy districts

Using statewide data, the authors find that salary levels and compensation practices show little relationship to fiscal health. Providing lifetime health benefits to retirees, however, is clearly associated with fiscally unhealthy districts. Throughout California, 72 districts have such benefits, and those districts serve 1.4 million (about 24%) of the state's students.

Authors' Conclusions

While California maintains a monitoring and certification process that identifies districts headed for a fiscal crisis, those systems could be made more effective through better financial planning on the part of districts and better oversight on the part of county offices of education. But even if those improvements were made, California school districts confront revenue and expenditure issues that make it difficult to both maintain fiscal health and strategically allocate resources in ways that further student-performance goals.

External conditions related to unequal revenue levels make it is easier for some California school districts to stay fiscally healthy than for others. But the findings of this study suggest that differences in districts' financial practices and personnel also make a real difference. In particular, leadership stability matters as does effective training not only for school district CBOs, but also for superintendents, school board members, collective bargaining teams, and school principals.

EdSource and School Services of California each have 30 years of experience in California. EdSource provides impartial research and analysis of education policy issues, including school finance. School Services serves as a fiscal adviser to school district leaders and lobbies on behalf of school districts.

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This study was completed in November 2006.