

School Business Leadership in the New Fiscal Reality

The rules of school finance have changed dramatically and school business officials have an opportunity to take on a vital leadership role.

By William Hartman, Ph.D.

School districts are operating in a new environment—the new fiscal reality. In this very real world, life for school business officials is very different. The rules under which school finance operates have changed dramatically:

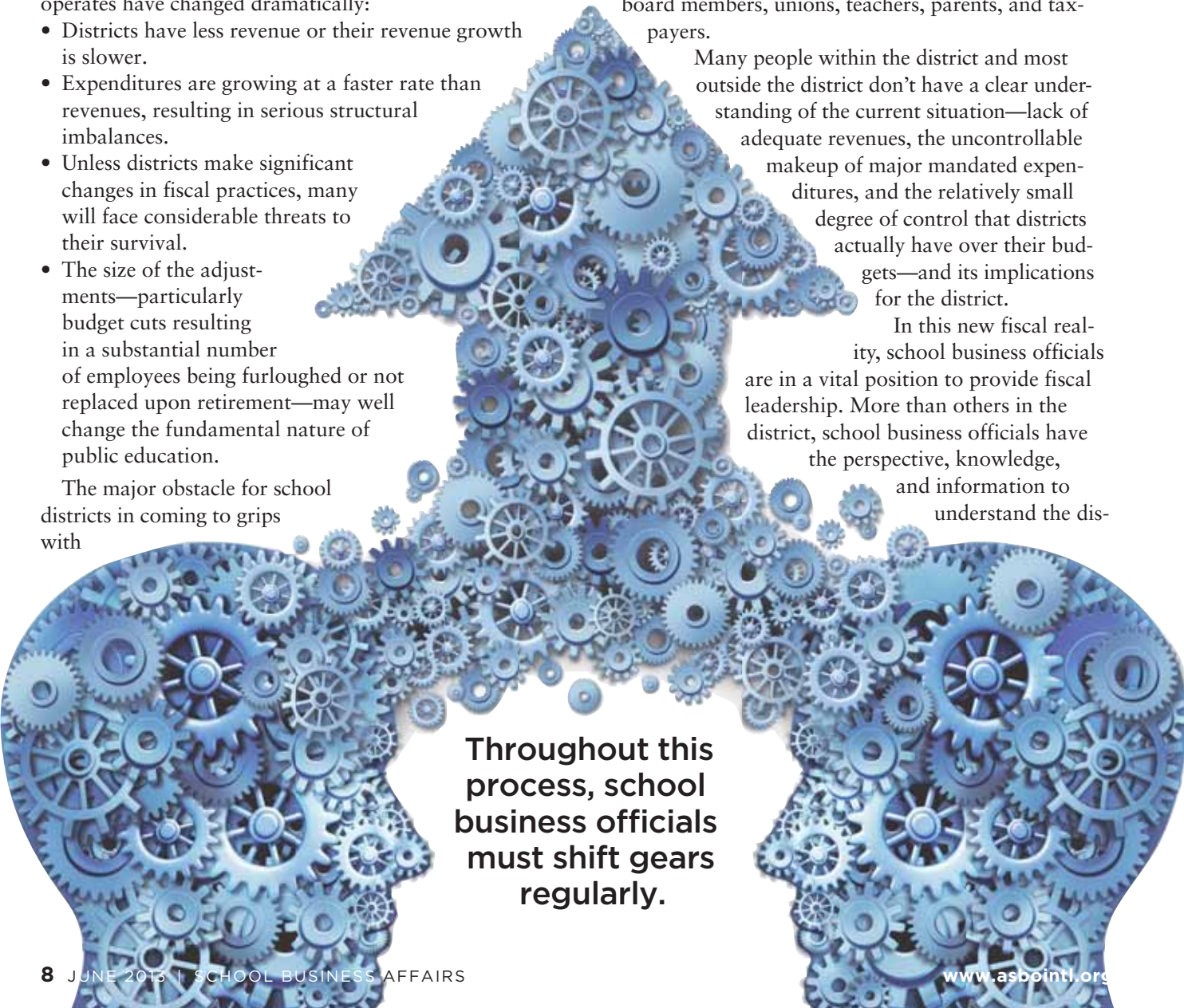
- Districts have less revenue or their revenue growth is slower.
- Expenditures are growing at a faster rate than revenues, resulting in serious structural imbalances.
- Unless districts make significant changes in fiscal practices, many will face considerable threats to their survival.
- The size of the adjustments—particularly budget cuts resulting in a substantial number of employees being furloughed or not replaced upon retirement—may well change the fundamental nature of public education.

The major obstacle for school districts in coming to grips with

the magnitude and disruptive nature of the new fiscal reality is fiscal uncertainty. Being shaken out of comfortable, long-standing patterns of thinking and operating can be unsettling for many district administrators, school board members, unions, teachers, parents, and taxpayers.

Many people within the district and most outside the district don't have a clear understanding of the current situation—lack of adequate revenues, the uncontrollable makeup of major mandated expenditures, and the relatively small degree of control that districts actually have over their budgets—and its implications for the district.

In this new fiscal reality, school business officials are in a vital position to provide fiscal leadership. More than others in the district, school business officials have the perspective, knowledge, and information to understand the dis-



Throughout this process, school business officials must shift gears regularly.

trict's current and likely future fiscal condition. Consequently, they play a critical role as the primary source of accurate, reliable, and timely data about the fiscal future the district will face. Fulfilling this role involves several important steps:

1. **Develop realistic multiyear budget projections for the district.**
 - Get a fix on where you are. Create your own fiscal GPS.
 - Focus first on the next budget year. Will you be able to balance your budget? What will be required? What are your alternatives?
 - Then, look three to five years into the future. What must you do to survive?
2. **Interpret what the fiscal projections mean for the district and for other interested groups.**
 - Start with a vision of the future grounded in as much reality as possible—not budget numbers alone, but what they imply for the district.
 - Select a few key results; don't try to explain everything, just the most important facts.
 - Move others in the organization out of denial.
3. **Help other members of the leadership group in the district build a unified consensus on how to deal with the district's fiscal problems.**
 - Clarify attitudes about the changes needed for the new fiscal reality (see the bullet item above).
 - Focus on looking forward not backward. Steer the district by looking through the windshield, not the rearview mirror. You can't change the past, only the future.
4. **Recommend fiscal actions.**
 - Start by tightening the current way of operating.
 - Challenge old approaches and assumptions where appropriate; seek creative new alternatives to replace or improve operations.
 - Focus on bigger actions. It's better to have one successful \$200,000 project than try to manage twenty \$10,000 ones.
 - Identify potential new revenue sources.
 - Find and analyze areas for cost reduction.

Throughout this process, school business officials must shift gears regularly among explaining the concept of the new fiscal reality; convincing others that the new environment requires changes in the way the district must operate; dealing with the practical steps of identifying, evaluating, and implementing changes in operations; and raising expectations for performance in the era of fiscal constraint.

Big Picture Concerns

In a world of details and regular crises, and with every item important to somebody (no matter how trivial in the overall scheme), school business officials need to

devote some time to formulating the successful transition to the new fiscal reality. In their typical day (or week), routine tasks can crowd out the necessary time. They need that time to focus on the larger concerns, those critical to the fiscal stability of the district. Such issues would include the following:

- **What are the key fiscal areas that are most important for the district's health?** Areas would likely include salaries, health insurance, pension costs, charter school costs (if not supported by the state), local tax revenues, facilities, major state subsidies, and federal funds.
- **How will each of these areas likely change over the next few years?**
- **What assumptions underlie the estimates of change?** Such aspects would include the status of the economy, the impact on local and state tax revenues, state aid, future growth of uncontrollable expenditures (e.g., pensions, health care, utilities), and significant remodeling or construction of facilities.
- **What does the district need from negotiations for upcoming union contracts?** Negotiations would revolve around the basic question of what the district can afford. Issues could cover the limitations on total compensation levels, including salaries and benefits; changes in health care coverage; and concessionary bargaining. On the other side, what are the expectations and likely demands of professional and support staff unions? How well do they understand and accept, if at all, the new fiscal reality? What trade-offs may be possible between salaries and benefit provisions?

Translating these complex and interacting issues into realistic budget projections for the district is a challenging task. However, with serious revenue shortfalls and growing expenditures in many states, making the magnitude of the district budget's shortfalls known is important. Otherwise, disbelievers and those with special interests to protect will deny the need for changes.

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Budget-planning models can be very useful tools in creating an understanding of the district's potential fiscal future. Remember, however, that planning models project the future; they are not accounting statements that report past events. Try not to overwhelm your audiences with voluminous data. You do not need to include information for every account and subaccount. Focus on

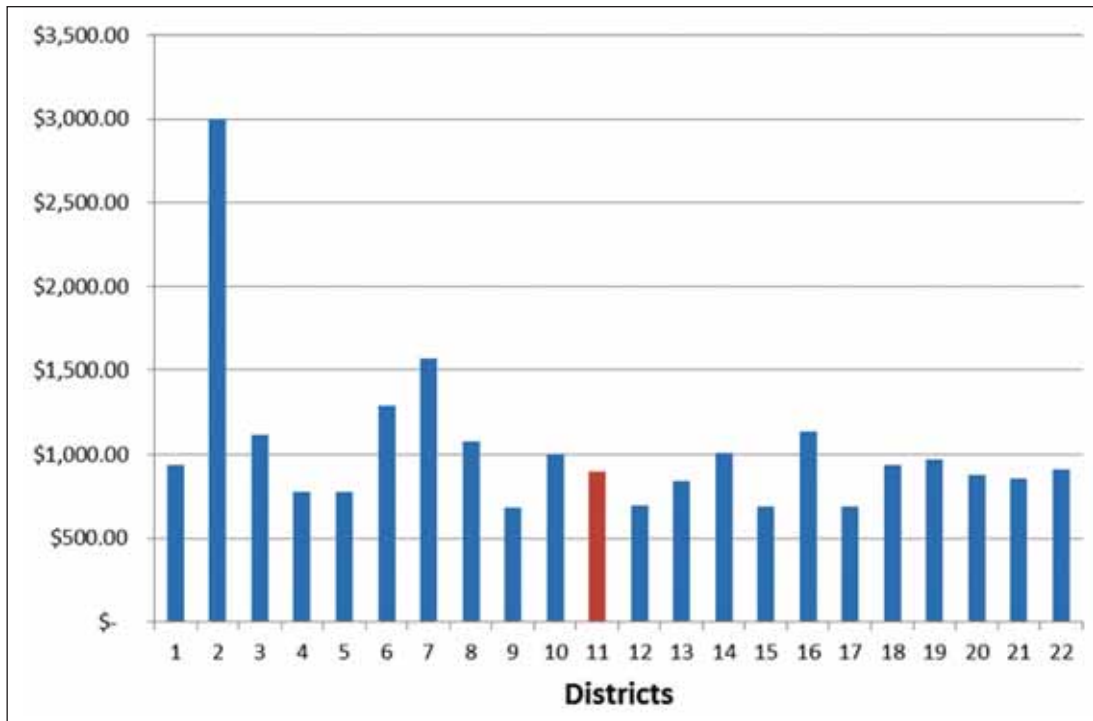


Figure 1. Administrative Costs per Student

the main accounts; for completeness, you can collect the smaller accounts into an “Other” grouping.

From the projection results, create reports that convey the key ideas that you want others to understand. Charts can be useful for highlighting trends over time and for making the point that unless the district makes changes, it may not survive. Then, share the message with all relevant parties: individual buildings, support staff, other administrators, board members, union representatives, parents, and parent groups.

Closing the Gap

After developing the projections, and the magnitude of current and future budget shortfalls is clear, attention turns to how to close the gap. The budget equation has two sides: revenues and expenditures. On the revenue side, districts generally have some options, although they are limited. Increasing local taxes is the most direct course and can provide substantial funds. However, strong local opposition to raising taxes can restrict this source.

Many other opportunities to raise revenues are controlled by others (the state legislature, in particular) or cannot provide enough funds by themselves. Although you shouldn’t ignore them, these opportunities will usually be insufficient. Districts do have fund balances that can be tapped, but they are one-time sources; once the monies have been taken out and used for revenues, they can’t be used again.

Therefore, expenditure reductions remain as the primary option for closing the budget gap. The expen-

diture reduction category is broad, and it needs to focus on smaller groups with a higher potential for payoff. Benchmarking is an excellent procedure for identifying those areas in which to concentrate budget-reduction activities. A quick comparison of the district’s spending per student across expenditure categories can detect where a district is out of line with comparable districts.

For example, using state financial data reported by districts, you can chart per-student expenditures relatively easily for various operations and instructional areas. In Figure 1 above, District 2 appears significantly out of line with its neighboring districts. The administrative cost area would be an appropriate place to determine why, and how those costs can be reduced.

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Locating out-of-the-ordinary expenditure areas through benchmarking will miss other areas where districts can effectively reduce their budgets. When an area’s expenditures are in line with those of other districts it doesn’t mean it is operating efficiently. Many additional opportunities may exist for districts to cut costs. A strategy for taking a wider look at expenditure reduction is to use a *keep, reduce, or eliminate review* of district cost areas.

To begin, the district needs to identify clearly *what the law requires*. The state public school code establishes the mandated activities. Generally, the list of mandated items is surprisingly short, and there can be substantial latitude in how to implement the requirements. Everything else is optional, even if desirable, effective, good for students, and expected by parents and the community.

“Everything else” could include very worthwhile programs and services, such as non-core curriculum courses (e.g., art, music, technology, all elective courses), core curriculum courses beyond a bare minimum (e.g., advanced placement, third- and fourth-year world languages), most instructional support services (e.g., librarians, guidance counselors, academic coaches), limits on class sizes, extracurricular activities (e.g., athletics, music and drama productions and units, student government), and modernized facilities. Taken to an extreme, reviewing these programs and services may be viewed as a scare tactic. (Cut the football team!) However, it is a place to start.

Although identifying and recommending budget cuts are not necessarily a comfort to school business officials, they are not alone. Most states and school districts are facing the same problems. As a result, a variety of references exist that can offer ideas and approaches for budget reduction.

For example, *500 Cost Reduction Strategies for Local Education Agencies* is an extended compilation of budget reduction ideas available from the Pennsylvania Association of School Business Officials. PASBO has also developed the Electronic Resource Center (www.pasboerc.org), an open online database of best practices and resources in school business management, which contains thousands of entries from numerous state affiliates. So although the work will be hard, your fellow school business officials and professional organizations can offer help and inspiration.

Living in Interesting Times

In looking over the new fiscal reality for education, I am reminded of an ancient Chinese curse: “May you live in interesting times.” These times are certainly interesting. However, beyond interesting, the conditions facing school business officials may well be the most professionally challenging and rewarding of their careers. In summing up an appropriate response to the challenge, a school business manager from Pennsylvania said, “I wouldn’t miss this for the world.”

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