Pennies for Perils? An Accounting of School-Based Commercial Activities

Many districts have turned to commercial activities to supplement their budgets.

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Policy makers continue to press district officials to improve student performance and at the same time to support efforts that constrain spending on the programs and services needed to produce those results. Most states have adopted tax and expenditure limits to address concerns about high and increasing school property taxes, such as assessment increase limits, tax rate limits, and levy limits. Although tax and expenditure limits can provide school property tax relief, states often fail to compensate districts fully for lost local revenues.

In response, many districts have turned to nontax resources to support their schools, including forming district education foundations, imposing user fees, and using volunteers. Evidence also suggests that an increasing number of districts are using commercial activities to supplement their budgets—a controversial resource stream (Molnar, Boninger, and Libby 2014).

Commercial Activities Defined

School-based commercial activities involve any relationship between a district and a business whereby the business exchanges fiscal or in-kind resources for access to students and staff. Molnar (2004) offers a useful typology of those relationships:

Exclusive agreements. Districts grant businesses the exclusive right to sell or promote their products or services. Examples include pouring rights agreements and vending contracts.

Sponsorship of programs and activities. Businesses associate their name with a district event in exchange for paying for or subsidizing the event. Examples include advertising with banners and handouts during an athletic contest or a play.

Appropriation of space. Districts allocate school space to businesses that then display their logo or advertisements. Examples include the allocation of space on scoreboards, rooftops, buses, textbook covers, and computer screens.

Incentive programs. Businesses give districts fiscal or in-kind resources (e.g., pizza) when school community members perform a given task. Examples include students and staff collecting vendor-specific product labels or receipts.

Sponsored educational materials. Businesses give the district instructional materials that highlight the business, while promising to serve a legitimate learning outcome. *Mr. Peanut's Guide to Nutrition* is one such example.

Electronic marketing. Businesses give districts technology to provide instructional programming in exchange for the right to advertise to students during the programs. Channel One is a prominent example of this type of activity.

Fund-raising. Businesses provide districts with products, which are then sold and distributed by students, with the profits shared between the district and the vendor. Candy and catalog sales are among the most visible examples of such activities.

Arguments For and Against

Proponents of commercial activities argue that they allow districts to secure much-needed nontax revenues. Other proponents posit that the activities foster students' understanding of the business sector and economy. Some proponents have also argued that such activities can promote consumer choice (e.g., vending machines).

Despite those plausible benefits, others oppose school commercialism for one or more of the following reasons:

Commercial activities are unethical. School-based commercial activities are charged with being unethical for several reasons. First, schoolchildren are a "captive audience" with little, if any, ability to turn away from commercial messages. Second, districts implicitly endorse those products that are advertised or made available on campus. Third, commercially supported online learning environments often gather marketing information about students, thereby violating their privacy rights.

Commercial activities often promote unhealthy products. Some opponents note that many products marketed or made available in schools have been linked to childhood obesity (e.g., sugary beverages, salty snacks, and fast food). Some also point to the mixed messages that children receive when they are taught about nutrition in health class, only to find "junk food" in the lunchroom vending machines.

Commercial activities corrupt instruction. Some argue that sponsored educational materials and electronic marketing usurp valuable instructional time and, in some instances, degrade instruction by providing biased information concerning health, social, and environmental issues.

Commercial activities promote consumerism. Some opponents fear that commercial activities promote consumerism, whereby students are encouraged to substitute market values for democratic values, undermining public schooling's civic function.

Commercial activities supplant traditional revenue sources. Commercial activities might provide some measure of local tax relief. What troubles opponents is that commercial revenues supplant, rather than supplement, traditional tax-based revenue streams (i.e., local taxes and state and federal aid). The result, opponents argue, is that commercial revenues do not enhance students' educational experiences but simply absolve local districts and states of their funding obligations. Indeed, some opponents make the case that commercial activities can result in children paying for their education, in part, which all state constitutions explicitly or implicitly stipulate should be "free."

A Study

Given how widespread school-based commercial activities are thought to be, the belief that they represent a viable revenue source, and the ire they engender in many, we were surprised that the literature was nearly silent on their nature and efficacy. Most accounts of commercial activities can be found in the popular media, describing what might represent extraordinary activities, such as large pouring rights contracts and signage on top of school buildings near airports.

To better understand the possibilities and perils of school commercial activities, we surveyed school business officials in New York and Pennsylvania. We chose those two states because they varied in the level of oversight applied to commercial activities. At the time of our study, New York permitted most forms of commercial activities (e.g., pouring rights contracts and appropriated space), but not all (i.e., electronic marketing). Pennsylvania districts had no such restrictions. Our study sought to answer several questions that would both frame and inform the debate. The following sections highlight our findings.

The Extent and Nature of Commercial Activities

Our analysis revealed that 94% of Pennsylvania's respondents and 75% of New York's respondents used one or more commercial activities, giving credence to those who argue that school-based commercialism is widespread.

Notably, 50% of the Pennsylvania respondents reported having a pouring rights contract, compared with 23% of the New York respondents. Substantially more Pennsylvania districts also appropriated space when compared with New York. Although New York did not prohibit the use of those activities, its prohibition of electronic marketing possibly had a tempering effect on districts' use of commercial activities more generally. That said, the majority of districts in both states used fund-raising and incentive programs.

Exclusive Agreements and Appropriate Space

To better understand the factors that prompt districts' use of commercial activities, we asked respondents to indicate the most important reason for granting exclusive agreements or appropriating space—the two

Table 1. Exclusive Agreements Resource Generation

Vendor Type	Percentage Using Resource Flow	Average Annual Revenue Flow	Amount of Resource per Pupil	Percentage Total Revenue	Percentage Local Revenue
Pennsylvania					
Soft drink	98	$28,674	$7.29	0.07	0.12*
Picture, yearbook, and class ring	22	$3,257	$0.95	0.01	0.02
New York					
Soft drink	94	$34,223	$9.81	0.08	0.23*
Picture, yearbook, and class ring	20	$3,246	$2.00	0.01	0.05
Snack food	20	$2,775	$1.98	0.01	0.06
Athletic	2	$1,800	$0.21	< 0.01	0.01

*When exclusive agreements are expressed as a percentage of local revenue, those agreements account for less than 0.0025% of resources.

activities that proponents allege are the most lucrative. Districts in both states responded similarly.

The most common reasons for granting an exclusive agreement was to supplement local revenues or to fund a specific program or activity. New York respondents also expressed their desire to use exclusive agreements to provide property tax relief—not surprising given that New York has among the highest school property tax burdens in the country. Other reasons included to provide tax relief (sustain spending levels) and to provide goods to students and staff at a lower unit cost.

Funding a specific program was the most important reason most districts appropriated space. Interestingly, about 20% of respondents stated that their desire to develop or sustain positive relationships with local businesses was the most important factor in deciding to appropriate space. For both exclusive agreements and appropriating space, those factors that might improve the school milieu (e.g., increased choices and increased student or staff satisfaction) did not contribute strongly to the decision to engage in those activities.

Resource Flows

As noted earlier, the literature does not offer a meaningful account of the resources secured through school-based commercial activities. Available are news accounts of districts that enter into seemingly lucrative or unusual relationships with business. For example, the *New York Times* reported that a Texas school district raised several hundred thousand dollars by selling advertising space on its buses and Web page, as well as by selling naming rights for components of its athletic stadium (e.g., turf and press box) (Smith 2012).

So we might better understand the resource-generating potential of commercial activities, we asked those with exclusive agreements and appropriated space to detail the amount of fiscal or in-kind resources yielded from those arrangements. For long-lived, in-kind resources, say, scoreboards, we amortized the resource over its estimated useful life to arrive at annualized dollar figures.

As Table 1 indicates, most exclusive agreements involve beverage companies, with fewer districts entering into agreements with picture, yearbook, or class ring companies. Twenty percent of New York districts also reported having an agreement with snack food distributors, and one reported having an agreement with an athletic supply company. No respondents reported having an exclusive agreement with a fast-food company.

The right-hand columns of Table 1 report in multiple ways the average amount of resources generated from exclusive agreements annually. When exclusive agreements are expressed as a percentage of local revenue, which they are properly categorized as being, those agreements account for less than one quarter of 1% of resources.

Table 2 shows comparable figures for the nature and amount of resources generated from appropriated space. Again, when represented as a percentage of local revenue, the amounts are marginal. Interestingly, about 80% of the respondents in both states indicated that the resources generated from exclusive agreements met their expectations. Similarly, about 80% of Pennsylvania respondents indicated that the appropriation of space met their revenue expectations. Together, those findings suggest that most districts entered into those arrangements well aware of their limited resource potential. Alternatively, 44% of New York respondents indicated that appropriated space did not meet their revenue expectations.

Table 2. Appropriated Space Resource Generation

Vendor Type	Percentage Using Resource Flow	Average Annual Revenue Flow	Amount of Resource per Pupil	Percentage Total Revenue	Percentage Local Revenue
Pennsylvania					
Scoreboards, back-boards, and sports equipment	74	$3,265	$1.02	0.01	0.02
Billboards, signs, and logos—outside	31	$4,083	$1.09	0.01	0.02
Naming rights of school facilities	11	$51,984	$7.81	<0.01	0.11
Banners, signs, logos, and posters—inside	9	$1,233	$0.37	<0.01	0.01
Textbook covers and textbooks	3	$2,000	$1.30	0.01	0.03
Message boards	6	$2,350	$0.33	<0.01	<0.01
New York					
Scoreboards, back-boards, and sports equipment	90	$4,620	$2.77	0.02	0.05
Textbook covers and textbooks	10	$25	<$0.01	<0.01	<0.01

Resource Uses

Our analyses thus far provided us with useful approximations of how commercial activities benefit districts. In Table 3, we report how districts put those resources to use. In both states, respondents indicated that districts most often used those resources to fund a specific program or activity. When queried as to the nature of those programs or activities, respondents overwhelmingly listed extracurricular activities. This finding was evident in those instances where districts appropriated space to secure scoreboards. Similarly, all the districts that appropriated space by selling naming rights indicated they did so to underwrite the construction costs of athletic facilities.

Table 3 also reports that about 25% of the respondents used funds derived from exclusive agreements to supplement their fund balance. Notable percentages of districts also reported using those funds to decrease local taxes. We recognize that the fungible nature of resources makes it difficult to determine the economic effect of commercial activities on a given district's resource flows. For example, revenue secured to fund a specific program can concomitantly supplant general-fund revenues that would otherwise have been allocated to fund the program. Nevertheless, the respondents were perceived the primary benefits of the were activity to supplement or supplant locally derived revenues.

About 15% of respondents in Pennsylvania and 10% in New York indicated that their use of commercial activities had a positive influence on their ability to pass budgets. Perhaps this finding is explained in part by the fact that districts can use commercial activities to lower local levies. Perhaps districts' use of commercial activities

Table 3. Primary Uses of Resources Derived from Commercial Activities

Primary Use	Pennsylvania	New York
Exclusive Agreements		
Increase the district's general fund balance	22%	24%
Decrease school taxes directly	10%	21%
Fund a specific program or activity	68%	53%
Other	—	2%
Appropriated Space		
Increase the district's general fund balance	13%	—
Decrease school taxes directly	—	—
Fund a specific program or activity	83%	90%
Other	3%	10%

signals that district officials are determined to pursue nontax revenues, fostering goodwill at budget time.

Costs in Time

Media accounts of lucrative school-based commercial activities give the impression, quite understandably, that those activities solely yield resources. That impression is erroneous. Our analysis revealed that Pennsylvania school business officials spent, on average, 6.44 hours and 10.06 hours, respectively, acquiring and stewarding exclusive agreements and appropriated space annually. New York's school business officials reported spending 5.45 hours and 0.38 hours managing those tasks annually. We anticipated that New York's school business officials would spend substantially fewer hours than their Pennsylvania counterparts appropriating space. Appropriated space in New York mostly involved soliciting scoreboards.

Community Response

Given the concerns of opponents regarding school-based commercial activities (e.g., health issues and promotion of consumerism), we asked respondents whether individuals or community groups criticized the district for engaging in exclusive agreements and space appropriation. Only 6% of Pennsylvania districts and no New York districts received criticism for appropriating space. Alternatively, 28% of respondents in both states indicated that their districts received criticism for using exclusive agreements. The latter finding can be viewed differently depending on one's position regarding school-based commercial activities. Opponents now have evidence that exclusive agreements have received criticism in more than a quarter of districts that engage in that activity. Alternatively, proponents can cite those figures as evidence that exclusive agreements do not engender concern in the majority of districts.

We also queried districts that chose not to grant exclusive agreements or to appropriate space about their reasons for not engaging in those activities. Interestingly, between 10% and 20% of the respondents indicated that community pressure against using the activity discouraged them from doing so. The more common response was that the benefits of those activities were not worth the costs.

Net Benefits

The goal of the final step of our analysis was to determine whether commercial activities yielded net benefits for the districts that had them. Recognizing the difficulty in assigning dollar values to specific benefits (e.g., sustained positive relationships with local businesses), as well as costs (e.g., criticism), we simply asked respondents if they would grant exclusive agreements or appropriate space if public resources were available to fund the activities supported by those arrangements. We reasoned that their responses would balance the possible advantages and disadvantages of those activities to their district.

Our analysis revealed that fund-raising and incentive programs were the most pervasive forms of commercialism.

Small majorities in Pennsylvania (59%) and New York (51%) indicated they would continue to use exclusive agreements. When similarly queried about the continued use of appropriated space, 74% of Pennsylvania respondents indicated they would continue to do so, compared with 40% of New York respondents.

Final Thoughts

We undertook this study to inform our understanding of school-based commercial activities. In doing so, we confirmed some claims about commercial activities and disconfirmed others.

First, our findings lend support to the view that school-based commercialism broadly viewed is widespread. That said, our analysis revealed that fund-raising and incentive programs were the most pervasive forms of commercialism. Though used by many districts, exclusive agreements and appropriated space are not as ubiquitous as some claim.

Second, our interstate comparison allowed us to show that the prevalence of school-based commercialism varies by state. Once a given district decided to use exclusive agreements or to appropriate space, however, districts benefited from those activities in several ways: supplementing local revenues, funding a specific program, providing property tax relief, or fostering relationships with local businesses.

Third, our analyses revealed that the resource-generating potential of commercial activities is limited. Pouring rights contracts, the most common and lucrative type of exclusive agreement in both states, typically yielded less than $10 per pupil annually. When one accounts for the cost the district incurs in supporting those arrangements (e.g., personnel cost to manage the account) and the public criticism, claims that such arrangements benefit districts appear suspect.

Fourth, we found that districts that used commercial activities were, on average, larger (i.e., enrollment), were poorer (i.e., income and property per pupil), and had higher local tax burdens than their counterparts. This finding is intuitive. Given the positive association between enrollment and sales volume, commercial entities likely favor larger school systems compared with smaller systems. We should also not be surprised when comparably low-spending, low-wealth, high-tax districts seek alternative ways to supplement their budgets.

If one places stock in the concerns believed to accompany school-based commercial activities (e.g., health) and recognizes their limited resource potential, we believe it is problematic to champion their use despite whatever contributions such efforts make to the budget. Our purpose here is not to censure those districts that engage in commercial activities. We readily acknowledge that every dollar is important. We are simply not convinced that every dollar is worthwhile.

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