

Keeping California School Districts Fiscally Healthy

Current Practices and Ongoing Challenges

A summary of a research study by EdSource and School Services of California prepared for the 2007 *Getting Down to Facts* research project



PUBLIC SCHOOL DISTRICTS IN California are responsible for providing a free education to more than 6 million kindergarten through 12th-grade students. The news media and the public pay careful attention to how the public school system is performing its primary task of educating students. Studies that rank California students' performance on national tests and the state's announcements regarding test scores and school performance receive broad coverage.

The performance of a school district as a business enterprise, however, rarely garners much attention except when there is a crisis. Districts forced to seek emergency financial assistance from the state draw the attention of the press and policymakers. A teachers' strike becomes the focus of the community's interest as does a proposal to close a local school. Yet, the day-to-day financial management of school districts seldom receives serious scrutiny.

In California, just maintaining a solid financial operation can be challenging for a variety of reasons,

including the complexity of the school funding system and the general lack of control that school districts have over their revenues, particularly since the passage of the Proposition 13 tax-cutting initiative in 1978.

California's nearly 1,000 school districts vary in their ability to maintain strong fiscal health within this environment. They also differ in the qualifications and stability of the personnel responsible for their financial management, the nature of their governance and leadership, and their financial management practices.

This report looks at the financial management of California school districts and its relationship to strong fiscal health based primarily on the findings of a 2006 research study conducted by EdSource and School Services of California. After a brief overview of the conditions under which school districts generally operate in California, this report looks at the extent to which districts are fiscally healthy based on a measure developed as part of the study. It examines how conditions outside a district's control relate to fiscal

health and the complexities involved in developing strategies to help struggling districts. This report also looks at how districts vary in the qualifications and stability of the responsible personnel, the nature of their governance and leadership, and their management practices. It considers fiscal best practices, including which practices show a relationship to district financial health. Finally, it looks to the future, including a discussion of ways to improve the fiscal health of the state's school districts.

California school districts face fiscal realities and constraints

School districts are the fiscal agents responsible for the management of the schools under their purview. The variation in their size and configuration leads to differences in the challenges school district leaders face in managing them financially. That said, all districts in California operate within a larger context that includes state control of revenues, the dynamics inherent in being a public agency, and operating characteristics that are unique to public education.

This report summarizes a research study by EdSource and School Services of California

In November 2006, EdSource and School Services of California, Inc., completed a study entitled *School District Financial Management: Personnel, Policies, and Practices* as part of the *Getting Down to Facts* research project overseen by Stanford University and released in March 2007. This EdSource publication summarizes the study findings.

While the official findings were the work of School Services and EdSource, EdSource takes full responsibility for the content of this summary and for any errors or misinterpretations it may contain.

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Acknowledgements:

Although EdSource is responsible for the content of this publication, the research study itself was a group effort between EdSource and School Services of California, Inc., with Professor Susanna Loeb of Stanford University providing oversight, active interest, sound advice, and analytical work. The quality of the study was also significantly enhanced by Joel Montero, chief executive officer of the Fiscal Crisis & Management Assistance Team (FCMAT), who provided input throughout the study design and analysis process.

In addition, EdSource wishes to thank the superintendents and chief business officers (CBOs) from 135 school districts who completed a long and detailed survey, and their support staff who assisted in that effort. Their enthusiasm for the project made our job easy.

Finally, we thank the **William and Flora Hewlett Foundation**, the **James Irvine Foundation**, the **Bill & Melinda Gates Foundation**, and the **Stuart Foundation** for underwriting the expenses to conduct this important school finance research project; and the **Fiscal Crisis & Management Assistance Team (FCMAT)** for the supplemental support that enabled EdSource to prepare and distribute this summary publication throughout California.

A state-controlled school revenue system limits options for districts

In California, the school revenue system is state-controlled, with districts having limited options for increasing the funds they receive. They can maximize attendance and claim funding for programs for which the district or school is eligible. They can also enhance local funding through foundations, parcel taxes, and other sources. But in the end, the vast majority of a district's revenues are generated by the number of students multiplied by their base revenue limit for general (unrestricted) purposes. Their eligibility for categorical (special-purpose) funds depends on a variety of additional factors, but many such funds are allocated on a per-pupil basis.

For most California school districts then, the number of students is a driving force in financial planning. But it is a number that can be somewhat unpredictable and over which districts have little control. Further, while enrollment propels district costs, such as staffing and materials, revenues are largely driven by the yearly average of students who attend. Average daily attendance (ADA) usually is lower than enrollment due to factors such as students moving, dropping out, or staying home due to illness. Thus, accurate budgeting and sound financial management depend, in an important way, on the ability of district leadership to estimate not only how many students will sign up for school, but also what their average attendance will be.

CBOs report that they maximize revenues where they can

When chief business officers (CBOs) were asked in the EdSource/School Services survey to what extent they felt their district was successful at maximizing revenues where possible, they generally reported success at maximizing public funds, including unrestricted state funds and, to a lesser

extent, categorical state and federal funds. They were split, however, regarding their success at maximizing interest income and securing extra revenues from private sources. And few CBOs report success at maximizing revenues from property (such as lease income) or services for which they could charge a fee.

School district management requires good business practices, but it is not like managing a business

Although some critics say school districts should just manage their finances more like businesses, experts point to numerous contrasts between school district financial management and business management. A 2005 report by Stacy Childress out of the Public Education Leadership Project at Harvard Business School states that the differences between businesses and school districts are greater than the similarities. The report cites examples, such as the way districts acquire capital, the requirement to serve all students regardless of their capabilities, and districts' accountability to a number of public and private stakeholders.

A number of additional requirements for school districts that are

particular to California can be added to this more general comparison. These include the requirement to collectively bargain with employees should they choose to be represented, due process protections for employees that can make the cost of termination substantial and the process lengthy, and limitations on the ability to contract with outside vendors for services.

School districts often rely on common business practices

At the same time, many school districts adhere to common business practices that improve their efficiency and reduce their costs, such as strategic planning, competitive bidding, and best practices in the area of personnel management (hiring, evaluation, and progressive discipline). Districts can also approach their interactions and communications with families and communities constructively, treating them as the "clients" of the education business. Effective investment strategies can ensure that districts manage real property well and maximize earnings on cash balances and other investments. Districts also benefit from the use of effective management information systems. Some school districts gain important advantages by forming joint powers authorities (JPAs) for purposes of combining purchasing power, providing services, or sharing risk.

Financial decisions are a shared leadership responsibility

Another reality regarding school district financial management is that it is always shared among school district governing boards, superintendents, and CBOs. Generally, CBOs are responsible for developing and managing the technical details of the budget, monitoring fiscal activities, and advising the school board and superintendent on the district's fiscal health. But California law requires that the superintendent and the board review

Study Methods

The original study relied on data available from state and local sources, augmented with a survey completed in spring 2006 by 135 chief business officers in a stratified random sample of California school districts. A review of both legal requirements and professional standards for the financial management of school districts guided the survey's development.

To determine the fiscal health of districts, the study used data from California's system for identifying fiscally troubled districts, which was supplemented with data regarding patterns of deficit spending and financial reserve levels. This measurement tool was used to evaluate the short-term financial health of all districts in the state for the period from 2002-03 to 2004-05.

The study uses comparative statistics to test for relationships between the fiscal 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. For some of the variables, a statistically significant difference (not likely the result of random variation) was found based on the fiscal health of the district, and those findings are noted throughout this report.

and ultimately approve the budget and other fiscal information submitted to local county offices of education (COEs) and/or the California Department of Education (CDE). When superintendents and boards sign financial reports, that means they agree with and support the information provided. For this reason not only CBOs but also superintendents and board members need to be knowledgeable about financial management laws and practices.

California does not currently have any official requirements for CBO certification. Districts are free to hire

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“Basic aid” and small districts operate outside the “normal” finance system

“Basic aid” districts have property taxes that exceed their revenue limit

About 50 districts regularly generate property tax revenues that exceed their base revenue limit amount. These districts are termed “basic aid” districts. They are allowed to keep all the property taxes they collect but receive no other general-purpose funding from the state.

The budgeting process for basic aid districts is fundamentally different. Their general-purpose revenues are typically more predictable from year to year because they do not depend on student count and property taxes are a relatively stable revenue source. Although other districts have an incentive to maximize their average daily attendance (ADA) in order to receive additional funds, basic aid districts can benefit from a lower student count that leaves them with more funds per student.

Small districts often rely on their county offices of education

Of the state’s 979 school districts, 396 qualify to be “direct service” districts based on size. These districts, by law, must have fewer than 901 elementary students, 301 high school students, or 1,501 unified (K-12) students. They can depend on their local county office of education (COE) for a variety of services, such as instructional supervision, attendance supervision, health services for pupils, and guidance services. For some of the smallest districts, this includes financial management, and the COE officially acts as the district’s chief business officer. Data regarding the number of districts that receive financial services or give their fiscal duties to their COE are not readily available.

whomever they choose in this role, and the state does not regularly collect data regarding the education or experience of district CBOs. In other states, the certification requirements for CBOs vary.

Fourteen states require some form of certification or licensure for CBOs, according to surveys conducted in spring 2003 by the Association of School Business Officials International (ASBO) with Purdue University. Another 14 states have voluntary certification, and 20 have neither type of program. (Two states did not respond to the survey.)

Compensation issues—determined through collective bargaining—are central to school district finances

An inescapable reality for every school district is that the bulk of expenditures are for personnel. That fact, combined with California state law regarding collective bargaining, means that district negotiations with employee unions are central to the district’s ability to keep its expenditures in balance with its revenues.

Collective bargaining is mandatory for school districts in California, and the vast majority of them are totally unionized. A typical district will have *at least* two bargaining units, one for teachers and one for classified employees. Some districts also have bargaining units for a portion of their administrators, such as school principals.

The scope of bargaining is defined partly by state law and partly by local contract and past practice. State law specifies wages, benefits, representation, and working conditions as mandatory subjects of bargaining. The scope of bargaining often also includes class sizes, coaching stipends, paid planning time, compensation for after-school activities, number of teaching minutes, duty-free lunch periods, retiree benefits, employee transfer and reassignment policies, and processes for evaluation and termination of employees.

Public employees can strike

In California, public employee unions have the right to strike, and the district has the right to unilaterally impose its last, best, and final offer. But first the parties must comply with specified state

processes, including a declaration of impasse, mediation, and fact-finding. In California, there is no binding end to negotiations short of a bargained agreement, and neither the school board nor the union is compelled to reach one.

After an agreement is reached, however, state law requires that the district superintendent and CBO personally certify that the district can afford the cost of the agreement for its duration. The COE then reviews the agreement and can advise the board of any concerns.

Compensation is determined locally but within state guidelines

California requires districts to place all teachers on a single salary schedule based on seniority and educational qualifications. But the specifics of the schedule are locally bargained. As a result, no two districts use exactly the same compensation scheme.

Compensation also includes days and hours of work as well as health and welfare benefits, with many districts offering free, or nearly free, health benefits while others cap their contribution. Statutory benefits are an automatic—and substantial—cost to school districts. For each employee, the district is required to contribute to specified public employee retirement programs and unemployment as well as Social Security/Medicare for some employees. These expenses cost more than 12% of salary.

Retiree health benefits are a concern

The issue of postretirement benefits, particularly health care, has gained visibility in recent years and is creating new challenges to districts’ fiscal health. Most districts limit benefits to a maximum number of years or age. A small number of districts, however, offer benefits for life, often including a retiree’s spouse and dependents. The cost of lifetime benefits is dramatically higher because, in general, a disproportionate share of health care costs occur during the final year of life.

This report relies on fiscal data during financially volatile years

This report relies on fiscal data from 2002–03 to 2004–05. During those years, the state’s financial situation was particularly volatile, and the number of districts identified as having serious fiscal health problems increased.

In 2005–06 the new set of regulations based on Assembly Bill 2756 (see the box on page 6) went into effect, further increasing these oversight requirements. In addition, 2005–06 marked a turning point in a two-decade increase in student enrollment. Projections are that enrollment in California’s K–12 schools will decline in 2006–07 and will continue to decrease by small numbers during the next decade.

Districts vary in their experiences, however, with about half experiencing declining enrollment, but about a third—generally in areas with lower housing costs—expecting growth to continue.

Districts that terminate the benefit or transition former employees to Medicare at age 65 avoid some of that cost.

If districts choose to offer postretirement benefits, they are not required to prefund any part of the benefit; and most districts do not. Thus, a district can grant a costly benefit to current employees and, in the future, have to balance that cost against a desire to augment educational programs or raise salaries.

In the past, districts were not required to include any acknowledgement of the liability for postretirement benefits in their financial statements. A footnote referencing the actuarial value of the unfunded benefit was sufficient to meet disclosure requirements. Then, in 2004, the federal Governmental Accounting Standards Board (GASB) issued statements 43 and 45, which require districts to record the unfunded liability in their financial statements beginning with the largest districts in 2006. But, unlike private corporations,

districts still do not have to set aside funding to pay for the future benefit. They can continue to allow the liability to grow.

The district can also determine the nature of the benefit offered. In practice, most plans require coordination of benefits with Medicare (when eligible), but some do not. Many California school districts offer a zero benefit—and a few offer the most costly benefit—but most districts fall in the middle.

Once given, the postretirement health benefit is difficult to take away. Districts that have done so have typically established a two-tier system. Employees hired before a certain date have the benefit; those hired after that date do not.

Finally, the cost of health benefits has risen at a rate that is two to five times higher than revenue increases in school districts. This unfunded liability grows at a rate far in excess of the district budget. Over time, both the unfunded liability and the cost of “pay as you go” benefits have become larger percentages of district expenditures.

Good facilities management is key to fiscal health, but funding is separate

School buildings are integral to district operations, yet much of the financial management related to them is outside of district general fund budgets. In California, the capital investment in buildings, including both new construction and modernization, is primarily financed through a combination of local and state bond money. Except for cases of hardship or emergencies, districts are expected to match state bond proceeds with funds from local bonds and/or developer fees.

The ongoing maintenance of facilities, on the other hand, comes from district operating funds in ways that are partially mandated by state law. Districts are required, for example, to maintain a routine restricted maintenance fund that dedicates 3% of their general fund budget to this purpose. In addition, districts can

receive state funds for deferred maintenance projects as long as they provide matching local funds. Custodial work is paid through the general fund.

School districts are also required to comply with the Civic Center Act and allow use of their facilities by the public. These arrangements are handled at the local level, and districts vary in the requests they get, the fees they charge, and the number of obstacles they sometimes place in the way of such use.

Additionally, school districts are free to engage in asset management programs and use excess property to generate additional revenue. This most commonly involves leasing vacant school sites. Some districts also sell some of their holdings to raise one-time money.

The study uses a robust measure that more accurately captures district fiscal health

One of the central questions in the EdSource/School Services study was the relationship between a district’s fiscal health and various personnel characteristics, state and local policies, and district practices. A first challenge was to accurately categorize which districts are fiscally healthy, marginal, or unhealthy. A concern was that the state’s current measures for identifying districts with poor fiscal health, described next, appear to underestimate the problem. EdSource and School Services developed a new measure of district fiscal health that more accurately captured district fiscal health during the three-year period examined in the study.

Assembly Bill 1200 created California’s current fiscal warning system

In 1991 California lawmakers passed Assembly Bill (AB) 1200, which established standards for financial management and created a system of fiscal accountability and oversight for school districts. The standards are broad in scope, dealing with such things as required reporting, data formats, a

California leaders strengthened the fiscal oversight provisions in 2004

After several years of robust economic growth and increased funding for schools, the state's financial situation worsened after 2000, affecting school funding. During the next few years, a small number of districts did not have the financial reserves or systems in place to avoid disaster. After granting the two largest school district emergency loans in the history of the state and a couple of lesser loans, lawmakers passed Assembly Bill (AB) 2756 in 2004. This bill added more teeth to the oversight process that AB 1200 created in 1991. Lawmakers used a list of indicators developed by the state's Fiscal Crisis & Management Assistance Team (FCMAT) to strengthen the fiscal oversight function. In July 2005, the State Board of Education supplemented the list. (See: <http://wwwstatic.kern.org/gems/fcmat/predictors12805.pdf>)

standard account code structure, and purchasing and bidding procedures.

The AB 1200 certification process is a straightforward evaluation of district solvency based on financial documents required by the state and dependent on local officials' ability to accurately project enrollments, costs, and revenues over time. When districts submit their annual budgets and interim financial reports to the county superintendent, they certify their ability to meet their financial obligations for the current and subsequent two years. County office officials review these documents to validate the district's self-certification. A similar process occurs when the district finalizes a collective bargaining agreement with employees.

Based on this review, districts receive one of three financial certifications:

- **Positive**—based upon current projections that a district will be able to meet its financial obligations for the current and immediate two fiscal years.
- **Qualified**—based upon current projections that a district may not be able to

meet its financial obligations for the current and immediate two fiscal years.

- **Negative**—based upon current projections that a district will not meet its financial obligations for the current or next fiscal year.

Of California's 58 county offices of education, 51 provide secondary fiscal oversight for the state's school districts. State law requires county superintendents to not only monitor the financial performance of school districts, but also intervene when a district is unable to meet its fiscal obligations. The California Department of Education (CDE) does the same for county offices. Additionally, school districts must retain independent certified public accountants to conduct annual audits as specified by the State Controller's Office. Further, the state's Fiscal Crisis & Management Assistance Team (FCMAT) provides both preventive services and recovery assistance to financially troubled districts.

Regarding financial reporting policies, the state also requires that all districts use a standardized account code structure for tracking revenues and expenditures, that they maintain a fund-accounting system that meets specific guidelines, and that they comply with state law regarding budget development, review, and submission. These rules are—in spirit, if not always in practice—consistent with the guidelines of GASB Statement 34, issued by the federal government in June 1999.

Outside California, some work has been done to create more robust systems to evaluate school district financial conditions. For example, the Financial Condition Indicator System developed in 2003 to assess New York school districts looked at districts' short-run financial solvency, long-run financial condition, conditions within the local economy surrounding districts, and student performance as a measure of service-level adequacy.

These types of indicators are largely not available for California. The state's current approach fundamentally measures districts' short-run financial condition and solvency. In 2004 policymakers added some additional oversight provisions to the AB 1200 process. (See the box on this page.)

The state's current measures identify few districts of concern

Initially, this study attempted to use districts' AB 1200 status to categorize them as healthy, marginal, or unhealthy. Using this approach, healthy districts were those that received only positive certification from 2002–03 to 2004–05; marginal districts received one qualified certification; and unhealthy districts received a negative certification or two qualified certifications.

The vast majority of districts (88%) were in the healthy category by this measure, with 7% marginal and almost 5% unhealthy. These data make clear the relatively small number of districts that have been identified as having fiscal difficulties under the AB 1200 process.

However, recent experiences in California suggest that the current system under-identifies districts that may be facing fiscal health problems. In particular, it does not provide a clear distinction between districts that are healthy and those that are marginal (at risk for problems given current practice). Specific issues include:

- *Management flaws compromise data.* There are several examples of school districts that received a positive certification under AB 1200 one year and then required the drastic step of state loans the next year in order to meet their obligations. The fiscal crisis did not erupt in one year but went undetected for several years because of the lack of quality information about the true fiscal situation.
- *There is limited ability to generate early warning.* Under the current system, there are

ways to distinguish districts that will clearly be unable to meet their financial obligations in the current year. However, there is no systematic review used to monitor or identify risky financial practices—such as deficit spending or inaccurate revenue estimates—that can eventually lead to fiscal problems.

- *Districts and county offices have difficulty evaluating the long-term effects of their decisions.* State law calls for districts and county offices to certify that the district can meet its obligations for the current year as well as the subsequent two years. There is no objective standard for these projections, however, and they are particularly difficult to evaluate or monitor due partly to funding fluctuations in the state budget and, thus, in school funding.

A more robust approach shows more marginal and unhealthy districts

To compensate for these problems, the EdSource/School Services study created a multidimensional measure that would consider not only districts' AB 1200 status over a three-year period, but also their deficit-spending patterns and reserve levels. The assumption was that fiscally healthy districts are less likely to exhibit patterns of spending beyond their means and more likely to have reserves. Using this more robust measure, districts in the state as a whole, and in the sample, were categorized as fiscally healthy, marginal, and unhealthy. Statewide, more than half of school districts fit the healthy category, but almost three in 10 were in the marginal category. (See Figure 1.)

Districts' fiscal health is related to factors outside their control

Numerous factors influence a school district's financial condition. Some are under the direct control of district management or can be significantly influenced by management decisions.

figure 1 | Districts statewide and in the study are rated based on fiscal health

	Districts Statewide		Districts in Study Sample	
	Number	Percent	Number	Percent
Not available	12	1%		
Healthy	520	53%	53	39%
Marginal	275	28%	46	34%
Unhealthy	176	18%	36	27%
Total	983	100%	135	100%

Note: The survey participants included an oversample of districts that had been identified as having fiscal problems. This was in order to make conclusions about unhealthy districts possible given the relatively small number of districts included in the survey.

DATA: SCHOOL DISTRICT FINANCIAL MANAGEMENT (PERRY/GDTF) 2007

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figure 2 | From 2002–03 to 2004–05, districts statewide with increasing enrollments were more likely to be healthy

Enrollment change from 2002–03 to 2004–05	Percent of Districts		
	Healthy	Marginal	Unhealthy
Districts that Declined	49%	30%	21%
Districts that Increased	56%	28%	16%

DATA: SCHOOL DISTRICT FINANCIAL MANAGEMENT (PERRY/GDTF) 2007

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Other factors are largely outside the sphere of influence of district management. The study showed that some of those factors were related to district fiscal health as previously defined.

The state provides extensive data regarding school district enrollments and revenues, two factors over which California districts have limited control. Districts in California also generally fit three types of configurations: unified (grades K–12), high school (9–12), and elementary (K–8).

For all districts in California, the study compared these characteristics and others, such as student demographics, against the fiscal health categories described previously for the years 2002–03 to 2004–05, considering each characteristic (one at a time) against the fiscal health categories. The relationships discussed next are

statistically significant (not likely the result of random variation).

Declining-enrollment districts are more likely to be fiscally unhealthy, and growing districts are more likely to be healthy

School districts in California have limited control over their enrollment. They must serve all students who show up for class, but the number of students can grow or decline because of larger demographic and residential patterns in the state. What districts can control—such as attracting students to good district schools or losing them to other districts or charter schools—typically have only a marginal impact on total enrollment.

Yet enrollment and attendance numbers have a substantial influence over school district expenditures and revenues in

The funding system disadvantages declining-enrollment districts

Declining enrollment puts specific fiscal stresses on school districts in California because of the funding system, while increasing enrollments bring financial advantages to districts. As school districts increase their enrollment, the state provides additional funds based on their per-pupil revenue limit. This amount represents an *average* amount that would be needed to accommodate the new workload, even though the district may not incur the equivalent increase in average costs for that unit of average daily attendance (ADA). Instead, districts usually incur a *marginal* increase in costs for each additional student. Marginal costs would be the added salary and benefit costs for a teacher and an aide (if applicable).

Conversely, when enrollment declines, school districts lose revenue limit (unrestricted) funds at the *average* rate per ADA, rather than at a *marginal* rate. To accommodate this loss of revenues, districts must cut costs beyond the classroom. A somewhat simplified example illustrates the point. If a district lost 30 ADA at a per-pupil revenue limit of \$5,000, it would face a loss in unrestricted revenue alone of \$150,000. However, cutting one teacher from the district's payroll would reduce costs by only about \$50,000 to \$60,000 (assuming the least senior staff would be released first). The savings related to an aide could be about \$30,000. After making these reductions, the district would still have to find savings of at least \$60,000 to mitigate the revenue loss. Reductions in other school or district operations—such as administration, student support services, or maintenance—would be required to keep the district's budget in balance. Because the scale of these operations do not adjust automatically with marginal changes in ADA, incremental implementation of reductions in these areas can be a major challenge. And this example assumes that the 30 students would all attend one school and that categorical funding (for special-needs students or for special programs) would not be reduced. Yet, neither scenario would likely be the case.

figure 3 | Statewide, elementary districts are the most likely to be healthy

	Percent of Districts		
	Healthy	Marginal	Unhealthy
Elementary School Districts	62%	24%	15%
High School Districts	54%	27%	18%
Unified Districts	40%	36%	24%
All Districts Statewide	53%	28%	18%

Note: Rows may not equal 100% due to rounding.

DATA: SCHOOL DISTRICT FINANCIAL MANAGEMENT (PERRY/GDTF) 2007

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California. Enrollment establishes the number of teaching and support staff a district will need. Attendance rates among those enrolled students largely determine the amount of revenue a district will receive. Enrollment growth and decline also affect a district's facility needs and costs.

Figure 2 on page 7 summarizes the distribution of all districts statewide with regard to enrollment change and fiscal health based on ADA histories from 2002–03 to 2004–05. Statewide, districts that experienced declining enrollment are under-represented in the healthy category and over-represented in the unhealthy group. Conversely, districts that experienced increased enrollment are disproportionately healthy and less likely to be unhealthy.

However, enrollment data from 2002–03 to 2004–05 do not capture the magnitude of enrollment declines that have occurred in California since then. Some districts have experienced declines over several years. In addition, an increasing number are now facing this situation, and many declines are becoming more acute.

The survey asked respondents to indicate what they expect their district's enrollment pattern to be for the next three years. Altogether 52% indicate that they expect their district's enrollment to decline, 16% predict no change, and 32% anticipate an increase.

An analysis of these responses against the districts' fiscal health show that the expectation for enrollment declines is

highest in districts that are currently designated as fiscally unhealthy: almost six in 10 anticipate enrollment losses. Less than one in five unhealthy districts anticipates an increase in enrollment in the next three years. On the other hand, more than half of the currently healthy districts expect either an increase (39%) or no change (15%), while 46% of this group predict enrollment losses. Of the districts identified as marginal, 52% expect declining enrollment in the next three years.

Unified districts are more likely to be marginal or unhealthy

Based on the study's fiscal health index, the data suggest that both elementary and high school districts are more likely to be healthy and less likely to be marginal or unhealthy compared with unified districts. (See Figure 3.)

Although these data are compelling, a number of factors make it difficult to draw substantive conclusions regarding the relationship between district type and district health. For example, revenue limits per ADA—and thus total funding per ADA—correlate highly with district type. By design, the state's revenue limit system provides, on average, a higher per-pupil amount to high school districts, a lower amount to elementary districts, and a middle amount to unified districts. (However, in recent years, elementary districts have been receiving almost the same amount as unified districts.) District size is a similar variable, with

elementary districts being the largest in number but the smallest in size. By contrast, unified districts include all of the state's largest districts.

However, a further regression analysis to control for these other district variables showed the same results and that these results are statistically significant. Unified districts are more likely to fall into the marginal and unhealthy categories.

Higher-revenue districts are more likely to be fiscally healthy

The study also looked at the extent to which districts' fiscal health might be related to revenue levels. The authors examined districts' revenue limit funds and their total revenues, using a per-ADA measure to control for the size of districts. For this analysis, the study looked at elementary, unified, and high school districts separately. Although there was no statistically significant relationship for the 84 high school districts in the state, elementary and unified districts yielded a number of statistically significant results:

- Those with higher total revenues per pupil (ADA) are less likely to be in the marginal or unhealthy category.
- Looking only at revenue limit amounts per ADA, the same relationships are true, with districts that have higher revenue limit amounts more likely to be in the healthy category.
- An examination of "other revenues" (total revenues minus revenue limits) shows the same general pattern, but not as strongly.

The study found that, for the most part, district size alone did not seem to have a clear relationship to fiscal health. But there was one exception: large elementary districts are more likely to be marginal than healthy.

Data on district leadership provide a partial picture

The study looked at a variety of issues related to the superintendent and the CBO to learn more about the people

responsible for keeping California school districts fiscally healthy. Topics of interest included the stability of district leadership and the education and experience of district chief business officers. State data on these topics is extremely sparse, so the study depended on the CBO survey and proprietary data sources.



Fiscally healthy districts are more likely to have stable leadership and more administrative staff

Districts with the highest stability in the superintendency are more likely to be fiscally healthy, based on data for the sample districts and the state as a whole.

Based on survey responses, the level of CBO education or training is not clearly related to fiscal health among the sample districts, but healthy districts are more likely to have had the same CBO for a decade or more.

Districts in the sample that have administrative staffing ratios lower than 125 to 1 are more likely to be healthy.

The majority of California school districts have stable top leadership and well-educated CBOs

Based on data collected by EdSource over several years, 39% of California school districts had the same superintendent from 2001–02 to 2005–06, and another 46% had only one leadership change in that time. In other words, about 85% of school districts in the state had relative stability at the top during that period. No data are available

regarding superintendents' total years of experience in the role or their education.

The CBOs who answered the survey are generally well-educated. The vast majority of respondents report holding at least a bachelor's degree, and three-fourths hold a bachelor's or advanced degree in a finance-related field. Further, the majority of CBOs say they have participated in some voluntary training. (See the box on page 11.)

Stability of business leadership is difficult to measure, again due to a lack of state data. Survey responses, however, provide a sense of what may be happening statewide. They indicate relatively high turnover in any given district, but a relatively experienced cadre of people filling CBO jobs statewide. On average, respondents had 4.7 years of tenure as a CBO in their districts and 10.5 years of experience in the role. Among the 129 CBOs who responded to this question, 43% report having 10 years or more of experience, but only 9% say they have been in their current position for that length of time.

Most CBOs in California have a broad scope of responsibility. Respondents to the survey are nearly unanimous in saying that they are responsible for their district's budgeting, accounting, purchasing, and risk management/insurance administration. Approximately seven out of 10 indicate responsibility for facilities, maintenance, operations, transportation, and food service. Only about half, however, say they handle their district's information technology, and about 15% say they have human resources responsibility for both certificated and classified staff.

The study also used state data to compare the level of administrative staffing in the sample districts, based on a ratio of staff to students. The data include both district office administrators and employees in the office/clerical category. The majority of districts in the sample

(58%) have a staffing ratio of between 75 and 125 students per administrative staff, but nearly 30% have fewer staff.

Attention has been directed at improving the capacity of CBOs

Presumably, appropriate education and training are an important part of preparing school district CBOs for this demanding and complex work, particularly absent any mandatory or voluntary certification procedure in California.

In California, there has been increased recognition that effective financial leadership requires that CBOs in particular have sound knowledge of good fiscal management practices. The growing number of districts nearing or reaching fiscal insolvency ultimately prompted legislative action in 2005. Prior to that, the state had no specific policies regarding training or qualifications for CBOs. This action followed several years of work on the part of state officials and the education community.

The CBO training bill, Senate Bill 352, which passed the Legislature in 2005, was supplemented by a \$1 million ongoing budget augmentation. The program provides \$3,000 per candidate to attend one of several approved training programs (enough for close to 350 participants annually). In March 2006 the State Board of Education approved criteria for training providers, and the first cadre of participants was approved during the summer.

The legislation further required that the CDE provide both an interim and final report on the program. Included in the interim report, due in July 2007, will be the “identification of the core competencies that should, at a minimum, be included as part of a state-administered chief business officer certification.” The legislation does not, however, call for that certification to be implemented.

Previously, private organizations and FCMAT provided the CBO training

available in California, and individuals or school districts generally paid for it. Four primary options were available. This study asked respondents about the extent to which they participated in those programs, and most reported having done so at least once. (See the box on page II.)



Fiscally healthy districts have well-trained board members, high-quality policies, and the ability to cut programs not aligned with their goals

CBOs in healthy districts are more likely to:

- Characterize the general orientation that board members receive as high-quality;
- Report that their district has high-quality policies and regulations;
- Say that their district has to a great extent established procedures for evaluating the financial impact of budget amendments and has been able to cut programs that are not aligned with strategic goals.

Financial management practices are somewhat consistent with professional standards

In developing its system of fiscal oversight of school districts, California has focused on identifying and intervening in bad situations. In a more constructive vein, documents from the Association of School Business Officials International (ASBO) and from other states recommend some professional standards for school district

CBOs. They also address district financial management and governance more generally. These standards documents, combined with the experiences and backgrounds of School Services and EdSource during the last 30 years, helped guide the development of the survey for this study.

School board governance and decision making affect financial management

Along with their responsibility to understand the state and federal laws under which school districts operate and to maintain professional standards, CBOs play an important role in informing the decision making of their school board and superintendent. Further, their ability to function effectively can be either helped or hindered by the quality of those decisions.

In California, school district governing boards have the ultimate responsibility for approving their district’s budget and for many ongoing financial decisions. To do this effectively, board members need to, at a minimum, have a clear and accurate understanding of the school finance system, accounting principles, district operations, and the role they should play in the district’s fiscal affairs. The study did not survey school board members regarding these issues, but instead asked CBOs some key questions about the district support given to board members. The survey also asked about the extent to which the district as a whole aligned its expenditures with strategic goals and priorities.

School board members often do not receive high-quality training, according to the CBO survey

Although the vast majority of CBOs who responded to the survey say their school board members receive some training on school district budgeting and finance, only a quarter of them characterize that

training as being of high quality. In addition, almost 40% characterize the general orientation board members receive as high quality. Most CBOs also report that their school boards formally evaluate the superintendent's performance, but that few boards conduct formal self-evaluations.

Respondents also say that boards receive good quality financial information and that written district policies and regulations are of high quality, even though they are not always promptly updated.

CBO responses vary widely regarding the extent to which finances are linked to priorities

CBO responses vary more widely on questions regarding how strategically districts make their 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 these same practices.

Two other questions about strategic decisions were markedly less positive. Just 23% of CBOs say their districts have to a great extent established procedures for evaluating budget amendments against district goals or that they are able to cut programs that do not further those goals.

Most CBOs say they use appropriate financial-control procedures, but fewer rely on some cost-cutting strategies

Almost all the CBOs who answered the survey report that they follow appropriate financial-control procedures,

The majority of CBOs report participating in some voluntary training

The majority of CBOs surveyed reported having participated in or completed at least one of the four voluntary training programs that were available to them prior to the 2006–07 school year. Of the 93 respondents, 26 had participated in multiple programs.

53.5% participated in CASBO Chief Business Official Certification Program. The California Association of School Business Officials certification program is one of the longest-running and most comprehensive training programs in California. Participants are required to complete 30 semester units of classes at accredited colleges and universities (or professional organizations, as appropriate). In addition, participants must complete an additional 40 hours of continuing education every five years to ensure certification renewal.

48% participated in ACSA School Business Managers Academy. The Association of California School Administrators School Business Managers Academy was designed to meet certain requirements of the California Commission on Teacher Credentialing Professional Clear Administrative Services Credential. The program is held on 10 weekends throughout the school year.

23% participated in the School Business Management Certificate Program. This yearlong program offered by the University of Southern California (Rossier School of Education) requires attendance two weekends per month (10-hour sessions) to complete 26 units of coursework, plus a fieldwork analysis and presentation. It also provides mentors for students. In 2005 the program began operating as a partnership with School Services of California, Inc.

8% participated in the new FCMAT CBO Mentor Project. Coordinated by the Fiscal Crisis & Management Assistance Team, this new program trained its first cohort of 20 CBOs during the 2004–05 school year. This project—a collaboration between CASBO, School Services, FCMAT, and California County Superintendents Educational Services Association (CCSESA)—emphasizes long-term, hands-on training and guidance. Training occurs during one year and consists of eight day-and-a-half sessions and various projects outside class. Participants are paired with an experienced CBO mentor.

meet both legal and professional standards for debt management, and satisfy legal requirements for purchasing. They also report using cost-cutting strategies, such as “piggyback bidding” (in which several districts work together to bid) to cut the cost of some purchases. Somewhat fewer respondents say their district always or often uses two other cost-cutting strategies—joint power authorities and direct delivery of supplies to schools (at 75% and 64% respectively)—as part of their purchasing practices. Respondents are also overwhelmingly positive about the use of high-quality estimating and budgeting procedures.

Respondents were also asked a series of questions about their approach to enrollment projections, including their use of statistical techniques and consideration of external factors, such as new housing developments. While six out of 10 say they always or often do these things, less than 17% say their district is always able to accurately predict turning points in enrollment. And a substantial minority (30%) report that they are sometimes or rarely able to do so.

Likewise, although respondents largely say that their district's financial software meets basic accounting requirements, they are less likely to say it provides capital-project tracking or

that the format for financial reports is easy for the board to understand and helpful for their decision making, with about six out of 10 agreeing with those statements.

CBOs are less positive about the systems in place to maintain facilities

The business office practices districts use to maintain existing facilities are important. Inadequate controls on the quality, cost, and tracking of these facility needs can affect a district's fiscal health. They can lead to unexpected and sometimes substantial expenditures when building systems—such as plumbing, roofing, heating, and electrical—suddenly fail.

CBOs were asked a few questions about the systems in place in their district to control, plan for, and set quality standards for the maintenance of facilities. Their responses to these questions are substantially less positive than is the case for most other areas of the survey.

One group of questions related to the measures districts take to document expectations for high-quality work and evaluate that work, including the use of written procedures. In contrast to many areas of this survey, where the bulk of respondents selected the most positive response, only about 20% of respondents report that their practices are of high quality in those areas.

A second set of survey questions asked about processes related to prioritizing maintenance needs, completing project cost estimates, and using a computerized system to track work orders and inventory. On these questions, about a third of respondents say their practices are of high quality.

The responses to all these questions followed a consistent pattern in relation to district fiscal health, with unhealthy districts less likely to report practices of high quality. However, these differences are not at a statistically significant level.

Compensation issues are a central concern in relation to fiscal health

Because personnel costs constitute more than 85% of operating expenditures in the average California school district, the issues related to employee compensation can be central to a



CBOs from unhealthy districts say their software does not track capital projects and is not easily understood by board members

CBOs from unhealthy districts are less likely to say that their district's financial software systems provide capital-project tracking or that the format for financial reports is easy for school board members to understand and helps with their decision making.

Certain other financial control practices set fiscally healthy districts apart, including: (1) complete agreement that they analyze significant expenditure processes to ensure appropriate controls; and (2) that they analyze significant contracts, financial negotiations, and expenditures for unusual cost fluctuations.

district's financial management and fiscal health. This study looks at three areas related to compensation: collective bargaining procedures and relationships, compensation practices, and retiree health benefits.

Most CBOs report positive relationships with unions

In general, survey respondents report meeting professional standards for collective bargaining procedures and

having positive relationships with their districts' primary teachers' union.

Further, the vast majority of CBOs report good-quality preparation for bargaining, including the financial estimates they prepare for the governing board. However, respondents were less positive about the quality of training and support that bargaining teams receive, with just 40% saying the training is of high quality.

Compensation trends show consistent salary increases but restraint on retiree benefits

A comparison of state data regarding compensation increases from 2002–03 to 2004–05 show that the state's statutory cost-of-living adjustments (COLAs) resulted in an increase in revenues of about 4% in the average district in the sample. During the same time frame, increases in salaries and benefits averaged a relatively uniform 7% among sample districts—a 3% difference.

However, regarding their most recent contract (generally 2005–06), only about 19% of survey respondents report that their district had granted a salary increase larger than the COLA. The majority of respondents also say their district follows recommended practice by negotiating total compensation (salary plus benefits) and having a hard cap on the per-employee cost of health and welfare benefits.

Slightly more than 10% of the districts in the study sample (and a similar proportion statewide) have the most costly postretirement benefits—lifetime health care.

The study took a limited look at resource allocation practices at the school level

State data in California provide little information about how districts allocate resources to their school sites, which is an important question because schools are the key operational units in

a school district. To attempt to shed some light on this, survey respondents were asked about the financial-management ability of school principals and their districts' school-level allocation policies and practices.

Principal financial training appears to be lacking in many districts

Based on the survey responses, there appears to be some disconnect between districts' expectations of principals and the training they receive. The vast majority of CBOs report that their district clearly communicates to principals the scope of their financial authority, and three-fourths say principals are held accountable for sound financial management. However, only about 60% say that principals receive training on financial management and budgeting to either a good or great extent, and just 40% say the same is true for school-level budget and policy groups (such as school site councils). Responding CBOs also indicate that school-level allocation policies generally place more emphasis on district control and guidelines than on school flexibility.

Reporting of district-to-school resource allocation practices shows little variation

Another set of survey questions explored in greater detail how districts allocate resources to schools, first by asking respondents to indicate which of three choices came closest to describing how general-purpose resources are allocated to the majority of schools within their district.

Among the 131 CBOs who answered this question, 30 put their district at one of two extremes in terms of school-versus-district control of resource decisions:

- 8% of respondents say their district office gives the school a budget to work with for both personnel and

nonpersonnel costs, and the school chooses how to spend those funds.

- 15% of respondents report that their district office determines the number of teachers, administrators, and support staff at a school and also determines the school's spending for nonpersonnel items.



Lifetime health benefits for retirees are correlated with poor district fiscal health

Healthy districts are more likely to report high-quality cost estimates and bargaining team training. However, the study found no significant relationship between reported compensation practices and district fiscal health, except one.

The one area of compensation practice that is significantly correlated with fiscal health is if a district reports granting lifetime health benefits to retirees. Districts in the survey that report having lifetime benefits are more likely to be unhealthy. Statewide data reveal similar results. The study identifies 72 districts statewide that have granted these benefits to their retirees. These districts serve 1.4 million students (about 24% of the students in the state).

A substantial majority of respondents—77%—took a middle ground on this question, agreeing with the following: “The district office determines the number of teachers, administrators, and support staff a school has and then gives the school a budget for nonpersonnel costs, and the site chooses how to spend those funds.”

The 101 CBOs who reported that their district struck the middle ground in terms of its allocation approach were asked a further series of questions to discover what constitutes standard practice among the apparently typical districts in which the district makes personnel decisions and the schools control nonpersonnel budgets.

Districts decide the number of teachers; schools have more voice in which people and their assignments. Arguably the most important resource in a school is its teachers. The survey asked the 101 CBOs how decisions were made about the number of teachers assigned to a school and about the assignment of individual teachers both to a school and to specific teaching assignments within a school:

- The overwhelming majority (92%) say their district decides on the number of teachers at a school, but a substantial portion—(52 schools or 54%)—report that schools provide input.
- CBOs in the survey say that schools are much more likely to have a decision-making role regarding the specific teachers assigned to a school, with about a fourth saying schools decide within district guidelines. More than a third (37%) characterize this as a shared decision.
- When individuals are assigned within a school, however, 70% of the respondents say that schools either decide alone (16%) or within district guidelines (54%). Another 16% report that the school and district share equally in the assignment decision.

Districts exercise considerable control over other staff assignments. Among the CBOs who responded to this series of questions, they overwhelmingly report that their districts decide both the number and type of site administrators. Schools have only a bit more influence over the number and type of professional support staff. Although still limited,

schools appear to have slightly greater influence over classified staff decisions.

Schools decide on supply purchases, but they have limited authority over other nonpersonnel expenditures. Additional questions looked at the balance of decision-making authority for a variety of nonpersonnel expenditures. The CBOs who responded to these questions varied substantially in how they described allocation practices that, based on their general answer, they had characterized as being the choice of schools:

- Regarding professional development for teachers, the majority of respondents (58%) report that the district and schools share equally in the resource-allocation decision.
- Regarding decisions about capital equipment purchases (e.g., computers, copiers), about half the respondents report that schools decide either within district guidelines (41%) or alone (7%). The remainder are nearly evenly divided between schools and districts sharing the decision and districts deciding either with school input or alone.
- It appears that the one area where schools have the greatest discretion is in purchasing supplies. The vast majority of the respondents (85%) report that schools decide this alone (32%) or within district guidelines (53%).
- By contrast, textbooks and instructional materials are not a school-level decision among the majority of districts surveyed. About a third of respondents say schools decide alone or within district guidelines. The balance of responses are split, with 28% saying schools and districts share the decision and 40% reporting that districts decide with school input or alone.
- Respondents are also clear that the district is the key decision maker regarding staff and services related to facilities upkeep. About 80% say the

district makes these decisions with school input (39%) or alone (41%).

CBOs report that staff allocation decisions consider school and student characteristics. The survey asked CBOs a further question about how their districts decide on the



Fiscally healthy districts are more likely to emphasize school-level capacity, accountability, and flexibility

Fiscally healthy districts are more likely to emphasize school-level capacity, accountability, and flexibility. An analysis of school-level allocation practices reveals some statistically significant differences depending on districts' fiscal health designation of healthy, marginal, or unhealthy:

- The extent to which principals receive training related to fiscal management and budgeting is reported to be significantly greater among respondents from healthy districts.
- Fiscally healthy districts are more likely to expect their schools to link financial decision making to school and student performance outcomes.
- The districts that report providing principals with staffing and budget flexibility to a great extent are significantly more likely to be in the healthy category.

Respondents whose districts are fiscally unhealthy are more likely to say that the district determines both personnel and nonpersonnel expenditures (23%) and less likely to say that their schools choose how to spend funds in both categories (3%).

number and type of personnel assigned to a given school and the extent to which they consider a variety of school conditions in those decisions. Overall, respondents report that their districts give some consideration to school performance and to student characteristics—particularly the percentage of English learners—when they allocate personnel to schools:

- About a third (31%) of respondents say that their district strongly considers school-level performance on state tests when it decides on the number and type of personnel to assign to a school. About half (49%) say this is somewhat of a consideration.
- Responses are similar in regard to the extent that the district considers the percentage of low-income students when it allocates personnel to a site, with 27% saying it is strongly considered and 55% saying it is considered somewhat.
- The vast majority of respondents say their district considers a school's percentage of English learners either strongly (43%) or somewhat (51%).

Increasingly, criticism has been leveled at school districts that overload schools with inexperienced teachers, particularly when those schools serve the neediest students. The survey attempted to learn the extent to which districts considered the experience of a school's teaching staff when it allocated personnel. A small group of respondents (19%) report that this is strongly considered, and another 49% say it is considered somewhat.

What are district CBOs concerned about in the future?

When asked about the threats they see to fiscal health both in the recent past and the future, CBOs report that rising costs have been the most common threat to their districts' fiscal health,

particularly cost increases related to Special Education, transportation, and staffing. Looking forward, they project the same to continue; but nearly a quarter also mention enrollment changes—most notably declines—which lead to revenue declines as well.

Reported threats to districts' fiscal health focus on rising costs

Respondents were asked to look back and report on any circumstances that were unique to their district, were outside the district's control, and threatened the district's ability to remain in good fiscal health. About half the respondents answered, and several mentioned two or more circumstances, providing a total of 98 responses to this question.

The majority of these responses deal with issues related to increased expenditures:

- The most common response, Special Education, is often more specifically described as Special Education encroachment (the need for a district to contribute a greater-than-expected portion of its general operating funds to support a categorical program).
- Encroachment is also an issue mentioned in regard to transportation, a program for which the state provides some funding based on historical funding formulas rather than on district costs.
- Staff-related costs of various kinds are also mentioned often, most notably increases in medical benefits for current employees and retirees.

About one in five responses focus on reduced district revenues as a result of losing students, primarily through declining enrollment.

Respondents differ in strategies for coping with enrollment declines

Enrollment changes occupy a prominent place for many respondents, with more than half the districts expecting

declines. Respondents were given a list of actions they might use to address this and instructed to check all that applied. The results indicate that:

- Virtually all districts will consider reductions in teaching staff.
- Nine in 10 districts will consider reductions in classified staff.
- Seven in 10 districts will consider reductions in administrative staff.

In addition, 42% of the districts anticipating a drop in enrollment are considering reconfiguring their existing schools, and 35% say that school closure is under consideration.

Financial management is a complex undertaking in California

The safety net created by the state through its requirements for fiscal responsibility (AB 1200 and AB 2756) has reduced the number of school districts that would otherwise have had a fiscal crisis. However, 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. But even if those improvements were made, California school districts confront revenue and expenditure issues that can make it difficult to maintain fiscal health and even more daunting to strategically allocate resources in ways that further student performance goals.

This study makes it clear that it is easier for some California school districts to stay fiscally healthy than it is for others. Districts that have lower revenues are more likely to be unhealthy as are those experiencing declining enrollment. With about half of California districts projecting enrollment declines, this could represent an important and continuing problem. But these external conditions are not the whole story because districts that vary in their fiscal health also report differences in their financial practices and their personnel.

The study indicates that leadership stability is particularly important for school districts because it provides an environment in which district goals and priorities can be consistent and clear, allowing professional practices to take root and flourish. Further, these leaders need to be well prepared for their financial management responsibilities. Based on the survey findings, training in financial management could be improved in several areas, including:

- School district budgeting and finance for school board members;
- The negotiating process generally for collective bargaining teams; and
- Fiscal management and budgeting for school site administrators.

Based on the CBO responses, it also appears that there are some specific areas of financial management that California school districts could strengthen to their advantage. Adequate staffing of administrative positions could help districts ensure their financial security. In addition, the relatively negative responses in the study on the few questions about systems in place to control, plan for, and set quality standards for the maintenance of facilities suggest another specific area where practices could be improved.

Linking resource allocations to educational goals is an ambitious objective that warrants more study

Increasingly in California, critics are calling for a change in the state's approach to funding its schools. Such a critique was a major message in the *Getting Down to Facts* research project released in March 2007. A major goal is to more effectively use school resources to improve student performance. Opinions vary, however, about what a better resource allocation system would look like.

One common theme in this discussion is the desirability of putting resource allocation decisions closer to the classroom and the student. Advocates argue

• | To Learn More

For the findings of the full study and references, including the survey that district chief business officers completed, go to EdSource Online, www.edsource.org, to EdSource Research Studies on the right and click on *School District Financial Management: Personnel, Policies, and Practices*.

Also see *Understanding School District Budgets* (1/05): www.edsource.org/pub_abs_budgetguide04.cfm

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that if greater accountability for results accompanied this change, districts and schools would operate more efficiently and students would be better served. Much of the discussion in California, with its state-controlled funding system, currently revolves around the question of school districts having greater flexibility. However, the question of flexibility for schools is invariably part of this discussion.

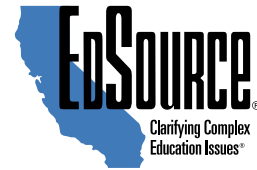
The study looks at the extent to which the concepts of strategic resource allocation and site-level decision making have salience among California school districts,

at least as reported by their CBOs. Having a clear picture of what exists in the state in this regard—both in terms of attitude and practice—is valuable as a starting place for further research and debate. It is also interesting that the study found a significant difference in fiscal health in those districts that pay attention to principals' capacity for financial management, expect principals to link fiscal decisions to student performance, and provide schools with budget flexibility. These findings are not sufficient to indicate that these practices are why districts are healthy, but they do suggest an area where more information is needed.

Controlling expenditures is the key to fiscal health in California

Given their inability to raise significant revenues on their own, a key to fiscal health for most California school districts lies in controlling their expenditures. The need to do so creates a dynamic tension between their responsibility to deliver sound, effective educational services to their students and to reasonably compensate their employees. Some fiscally healthy districts may maintain their fiscal status by scrimping on the services they provide. Others may risk being fiscally unhealthy in the name of educational quality. And some districts are apparently able to strike a delicate balance between these two extremes through a combination of effective financial practices and perhaps some good fortune in terms of the amount of revenues they receive.

The study's findings illuminate some possible strategies for improving districts' ability to be in this latter group, but they also shed light on the complexities involved in doing so in California. In addition, they raise important issues related to school district financial management that warrant more study, including further examination of district leadership as a key factor that, at least in some cases, can overcome weak financial fundamentals. ■■



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