

# ED335206 1991-08-00 Efficient Financial Management in Rural Schools: Common Problems and Solutions from the Field. ERIC Digest.

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# Efficient Financial Management in Rural Schools: Common Problems and Solutions from the Field. ERIC Digest.

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Good financial management of rural schools is a complex task, one made more difficult in recent years by the declining economic fortunes of rural areas nationwide. This Digest describes the challenge and briefly reports solutions developed by practitioners in rural schools. It is based on responses to a recent nationwide survey of rural school administrators conducted in cooperation with the American Association of School Administrators (AASA). More detailed information is available in a longer report available from both ERIC/CRESS and AASA (Inman-Freitas, forthcoming).

## THE CONTEMPORARY FINANCIAL PLIGHT OF RURAL SCHOOLS

Fifty-seven percent of the nation's school districts are rural districts. They enroll about 20 percent of the total student population (Stephens, 1991). Diversity, isolation, small enrollments, and unique cultural legacies are common characteristics of rural education (Nachtigal 1982; Stephens, 1991; and Theobald, 1989).

Rural schools can contribute significantly to the continued growth and development of their communities, but providing adequate programs has, unfortunately, become increasingly difficult in recent decades. Higher poverty rates in rural areas, combined with lower personal income of rural residents (Brown & Deavers, 1987), for instance, place additional fiscal pressures on rural governments. Educational programs in rural schools obviously suffer as a result. The burden of providing adequate educational programs is further increased by nonfunded, but mandated, programs to improve education (Stephens, 1991).

## MAJOR FINANCIAL PROBLEMS ACCORDING TO PRACTITIONERS

Rural practitioners report financial management problems that resemble the problems faced by all districts. The context in which rural schools operate, however, affects the development of solutions. A brief description of the major problems follows. Revenue. One of the biggest problems is cash flow, and several factors contribute to the problem. According to rural school administrators, the two most serious are (1) the

receipt of 30 percent of state aid after the end of the fiscal year and (2) delayed tax receipts. Delayed tax receipts mean that districts must often borrow money to cover operating funds until they actually receive the funds due them.

Late approval of the state budget is another problem reported by administrators in many rural districts. When the state budget is two or three months late, district officials do not know just what their state revenues will be. Late adjustments to school budgets are often necessary.

Expenditures. The basic problem in this category is that, for many rural districts, expenditures are increasing 10 to 12 percent annually while revenues are increasing only 2 to 4 percent annually.

Budget oversight becomes extremely difficult when several expenditure categories grow significantly from year to year. For example, rising special education and health insurance costs are causing great concern among rural districts. The high cost of special education combined with a decreased federal commitment to funding (currently at one fifth of the original commitment) strains rural school budgets. Similarly, health insurance costs rise at a rate of 15 to 30 percent per year. New expenses (such as, under new laws, paying for pensions and social security from local funds) unexpectedly increased expenses in some rural school districts.

Programs. Rural schools are often hard-pressed to provide modern technology in regular programs for students. Moreover, textbooks and equipment (especially in vocational programs) are obsolete in many cases, and rural districts struggle to maintain competitive teacher salaries. In fact, many rural administrators perceive that funding for rural school districts is inadequate and inequitable. Lack of revenue, they report, makes it impossible for many rural districts to provide the sort of educational programs that represent quality programming as it is now understood.

## GENERAL STRATEGIES REPORTED TO IMPROVE FINANCIAL MANAGEMENT

Districts have developed a variety of strategies to counteract some of the critical problems of fiscal management (Inman-Freitas, 1991). Some of the most widely used strategies reported by rural practitioners include:

- \* Seek bids and comparison pricing for all purchases, and pay all bills promptly if discounts are involved.
- \* Develop partnerships with local organizations for funding educational materials (consider establishing an educational foundation to coordinate such efforts).
- \* Use local personnel to provide various services (including volunteers and student

employees).

- \* Cooperate with other school districts to access specialized personnel, materials, and other resources (for example, to share or exchange custodial services with other local agencies).

- \* Use sweep accounts to keep investment income at the highest possible return.

Other areas where strategies have been developed are adjusting length of school day and year (for example, reducing a high school schedule from seven to six periods), eliminating study halls, combining small enrollment grades, and offering some secondary classes in alternate years. Strategies concerning staff include working around salary issues; implementing early retirement options; using time management techniques; involving staff at all levels in developing the budget and planning facilities; and hiring very talented people with multiple skills and interests.

Strategies for dealing with equipment and facilities include contracting specialty and janitorial services, using mobile libraries and portable classrooms, leasing school buildings, eliminating vandalism, and reducing fuel consumption. Strategies for generating funds include the use of school stores, vocational class products, adult evening classes, wise investments, cooperative buying, cooperative application for federal aid programs, community support of school projects, and local donations.

Strategies to maximize state aid. Although most rural districts are not happy with current funding formulas, rural school administrators reported strategies to make the state school finance formula work more effectively for their districts. These strategies include:

- \* Increase average daily attendance (ADA) by providing a full-day kindergarten (if appropriate and if additional costs do not outweigh added fiscal benefits).

- \* Increase student attendance rates by development of a perfect attendance incentive program.

- \* Budget the general fund legal limit.

- \* Make certain all eligible families apply for free or reduced lunches.

- \* Include home schoolers in the head count--simply sponsor and monitor their program.

- \* Schedule purchases to encourage quick state turnaround in state aid.

- \* Access as many special programs as possible that provide additional funding sources outside the regular state aid formula.

- \* Join with others (e.g., urban and suburban educators) to influence policymakers.

## RURAL-SPECIFIC OPTIONS FOR MORE EFFECTIVE FISCAL MANAGEMENT

One of the key questions faced by rural school districts today is "Do we consolidate, cooperate, or reduce school days?" Since most rural school districts are hesitant to consolidate, new and innovative methods of collaboration are emerging. Rural districts across the country have found the most common areas of cooperation are special education, vocational education, and purchasing.

Interscholastic athletics, however, are also becoming an increasingly popular cooperative interest. The Wisconsin Interscholastic Athletic Association reports 127 cooperative agreements between neighboring districts for 1990-91, and the state athletic association in Iowa reports 217 shared interscholastic programs (Holmes, 1990).

Technology is another area that is becoming an increasingly popular cooperative interest. Telecommunications provides an opportunity to link educators both within a state and across states. While the high cost of technology has prevented many rural school districts from implementing technology programs, the use of cooperatives may be a solution for some. For example, the Maine Computer Consortium (a group of 115 districts) is a cooperative that helped school districts get on the technological fast track (Holmes, 1990). In addition to offering bulk purchasing power, the consortium has a strong network of computer coordinators who provide training and support.

The four-day school week is another option that offers solutions to the financial and instructional problems faced by small rural schools. Many rural school districts have implemented a four-day school week because of declining enrollments, decreasing state aid, and the rising costs of operating schools. Districts using the four-day schedule have saved energy and transportation costs. Transportation costs have been reduced by 10 to 23 percent, and fuel and electricity costs have been reduced 10 to 25 percent. Student achievement test scores have increased and the attendance of both students and teachers has increased (Blankenship, 1984; Hazard, 1986).

## SEEKING SOLUTIONS

Good financial management involves an ongoing quest for solutions to the balancing act that confronts all organizations: doing efficiently all that is necessary with limited resources. The rural practitioners whose solutions are reported here stress several outlooks that help put the balancing act in perspective.

First, they recommend involving many participants in the process of constructing the budget, notably including staff, parents, and taxpayers. Building-level and community-level input is particularly important, they note, in rural areas, where schools are the center of attention. Second, and equally important, they recommend that the school district develop and apply a clear sense of priorities as budgets are planned.

Finally, the issue of forecasting has relevance. One respondent put it this way: When budgeting, underestimate revenues and overestimate expenditures. Another advised preparation of three budget scenarios--worst case, best case, and "best guess" versions.

The process of seeking solutions requires cleverness, consultation, and communication. Problems come and go, but the dilemma of fitting the means to the ends of education remains.

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