This report documents a study that examined the current financial picture of public education in 2003. Data for the study were collected from 188 surveys of selected school superintendents in Indiana, Illinois, and Texas. The superintendents were asked how the financial condition of their state and their school districts compared to a few years previous. Following are some of the key findings from the surveys: Overall, 58.4 percent of the superintendents stated that the financial condition of their state was worse at the time they filled out the survey than it was a few years previous; an additional 41.1 percent stated that it was the worst they could recall in their career. The option chosen by the largest number of superintendents (75.7 percent) for reducing costs was to reduce staff by attrition, not layoffs. The second most-chosen option for reducing costs was to increase class size. When asked how optimistic they were that the current economic conditions would improve in the ensuing 2 years, 3.7 percent of the superintendents reported they were "very optimistic"; 21.7 percent said "somewhat optimistic"; 56.1 percent said "not very optimistic"; and 18.5 percent said "not optimistic at all." (WFA)
Superintendent Observations Regarding The Financial Condition Of Their School Districts: A Three-State Study

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Presented at the Annual Meeting
Mid-Western Educational Research Association
Columbus, Ohio, October 18, 2003
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INTRODUCTION

In the United States, state constitutions contain provisions for a common school system that is funded by taxpayer monies. The statutes often contain language to the effect that the state must provide educational opportunity without regard to limiting factors. Such legislation could hardly have been envisioned with the limitations like the current economic situation. Every legislative provision is subject to necessary funding, and if the money is not there, it can hardly be created. Educational funding is dependent upon taxpayer monies. If taxpayers experience economic shortfalls, every area of the economy will be influenced, and education is not an exception.

Accountability movements within the states have placed a premium on student performance, labeling schools with a high percentage of low performing students as "failing schools." Monetary incentives to increase student performance as indicated by increased test scores have been established while schools not showing an increase in student performance have been threatened with reconstitution or takeover by state authorities (Reschovsky & Imazeki, 2001). These two writers add that most state systems of school finance have not adapted to this new emphasis on student performance and educational adequacy. Interventions in the form of judicial decisions and legislative efforts have been deemed as necessary to open public schools for all students. The Rose case in Kentucky is a classic example as the ruling went beyond equity arguments and broke new ground regarding educational adequacy (Guthrie, 2002).
The "bottom-of-the-barrel" economy is currently impacting nearly every facet of society. Educators present compelling cases that the impact has been unduly harsh on the financing of schools. Policies governing reduction in force (RIF) are very common, and such policies are being stretched as never before. Some superintendents indicate that they know how to handle the economic crisis for the near future, but they are very concerned about the economic picture a few years out. The current situation is that the weak economy will remain stagnant for the foreseeable future, and few signs of improvement are projected. "We'll somehow get through this next school year," said Pat Pritchett, superintendent of Indianapolis Public Schools. "Our major concern is the following two years, to make sure the legislature fixes some of the issues as they should have before" (Education Week, April 12, 2002, p. 1).

The impact of the weak economy on school district budgets has been devastating in numerous ways. School budgets have been combed carefully. The "fluff" has long since been removed, and mandated reductions are now being taken from personnel. District administrators have little choice because the mandated cuts are so great that personnel lines are the only place in the budget where significant amounts of money can be reduced.

In most cases, 2003 is the second year of continuing budget reductions. Superintendents comment that the 2002 reductions were much easier than those projected for 2003 or possibly 2004. With bleak economic projections for the near future, superintendents fear deeper cuts will necessitate greater reduction in the teaching and administrative staffs. Such cuts will show up in obvious ways: bright promising young teachers will no longer be employed in keeping with the Reduction in Force policies that contain "last hired, first fired" provisions; class size will escalate, thus causing quality
instruction to suffer; and, the youngest members of the teaching and administrative staff will be reluctant to put down roots in the community, knowing their turn to be riffed may come next. Current operating expenses may be reduced by the following: closing buildings, reducing academic offerings, reducing extracurricular or athletic programs, and/or cutting the number of days per week or year that school meets. School finance has become increasingly the major issue for superintendents. In the late 1990s, a study asked superintendents which issues were more important than in 1995. Technology and computers headed the list, with school finance second (Sharp & Walter, 1998). Today, with many schools having established adequate computer installations, school finance might well be the number one issue for superintendents. (Fortunately, the financial condition of the district is not one of the top four or five reasons that superintendents leave their districts - voluntarily or not (Sharp, 1995)).

Some state authorities have allowed school districts more latitude in budget expenditures. For example, in Indiana, superintendents may be allowed to take monies from the Capital Projects Fund and spend them in more creative ways than in the past. But, “Any cuts that have been made to date are likely candidates to stay,” said Mary Dieter, press secretary to Governor Frank O’Bannon of Indiana. Some reductions have the impact of the entire program being cut while others have experienced percentage cuts. Summer school programs, gifted and talented programs, English acquisition, and Advanced Placement programs have all been subjected to deep percentage cuts. “We hope that people realize that this belt-tightening isn’t just cutting the fat,” said State Superintendent Suellen R. Reed in Indiana. “It’s cutting programs that are important to students” (Education Week, April 17, 2002, p. 2). Superintendents, in their appeal for relief, are
working hard to make reductions for the present, but look to lawmakers to find ways of funding that will allow them to reinstate some of the programs that have been eliminated, and put on a more sound financial footing some of the programs deemed as essential. Few superintendents have conversations about starting new programs.

The financial crisis faced by schools comes at a time when more and more legislative demands are being made. Education reform measures come with a price, and most states have initiated reform measures in response to legislated mandates from the state and federal governments. The No Child Left Behind Act is an example of federal legislation that demands, in some cases, radical responses from schools to meet the mandates of the law. More often than not, the responses will contain needs that can be translated into more dollars to initiate and sustain the efforts the schools are making to comply.

Federally mandated legislation related to special students deserves close scrutiny during these economically troubled times. The supplemental costs of special education in Indiana was $980 million for the 1999-2000 school year (Chambers, Parrish & Brock, 2002). Federal funding to the state during the same year was $110 million (Special Education News, 2002). The Indiana school-funding formula generated $320 million (Michael & Theobald, 2000), but local revenues required to cover the costs for special education amounted to over $550 per student – thirty cents out of every dollar levied in general fund property taxes (Theobald, 2002, p. 5).

In educational terms, essentials are difficult to determine and define. Unfortunately, such determinations are often made because of the abiding passion of a dominant person who has the skills for persuading school authorities to keep or expand a given program.
The program may be a high-cost program benefiting very few students, but because of the political overtones associated with the person who is the program's sponsor, the program remains, when another, benefiting greater numbers of children, will receive the ax. Schools are subject to the political structure as much as any area of our society, and budget cuts are subject to the politics of a given scenario. Decisions are made for a variety of reasons; educational benefit may not be one of them.

Recent scenarios where superintendents have dealt with reducing the school district budget have yielded interesting comments. In some cases, extracurricular activities such as sports have made the headlines. One superintendent related that when he put football on the list of budget cuts, he received quite a public outcry. One person simply did not believe he was serious, but the superintendent related that he thought it took the sacrifice of some of the sacred cows to get the public's attention. A recent attempt to cope with extracurricular activities from a financial standpoint included "pay for play" fees in which students were charged a fee for the opportunity to participate in interscholastic play. Quickly, one sees the impact here. Many students cannot afford extra fees, and with the basic philosophy of extracurricular activities being to include as many students as possible, such requirements can lead to a philosophy of excluding those who cannot afford the fee. Financial supplements for extra assignments have been common in the past, but some districts have made cuts that have had broad sweeping ramifications. Coaching supplements have been cut, and cheerleader sponsors and other duties thought to be nonessential have been put on the budget block.

Accreditation associations have traditionally frowned on school fundraising events and rightfully so in that the preferred philosophy would be that the school is adequately
funded so that fundraising activities are not necessary. Students manning stop lights to sell raffle tickets, advertise a car wash, or simply to collect money for a school sponsored event present situations that most parents do not want for their sons or daughters.

In light of the current financial situation facing the public schools, the researchers decided to collect information from practicing superintendents to help in describing the financial picture more clearly.

METHODOLOGY

The design of the study called for survey methodology. The data for the study came from a selected sample of the school superintendents in Indiana, Illinois, and Texas. The names and addresses were obtained from official lists from state departments of education and/or superintendent organizations in the three states. Surveys were mailed to a random sample of 100 superintendents in Illinois and Texas. Since one of the researchers wanted to include members of his study council, surveys were sent to 100 superintendents at random in Indiana and an additional 24 to members of that council. Superintendents were instructed to return the surveys via enclosed self-addressed stamped envelopes.

All data were entered into a computer and processed anonymously and reported in aggregate form. This process allowed the researchers to report the data in such a way that individual participants were not identified. Participants had been assured of confidentiality in a letter that introduced the study and encouraged participation.

In Illinois, 49 of 100 surveys were returned by superintendents for a return rate of 49%; in Indiana, 78 of 124 responded for a rate of 63%; and, in Texas, 63 of 100 returned surveys for a rate of 63%. Some of the Texas data were incomplete. Therefore, some of the reported results covered only Indiana and Illinois, while others covered all three states.
Collectively, the overall return rate for the three states was 59%. The data were subjected to frequency analyses and Pearson correlations using SPSS 10.0 for Windows at Teachers College, Ball State University.

RESULTS AND DISCUSSION

Superintendents were asked how the financial condition of their state and their school districts compared to a few years ago. Overall, 58.4% stated that the financial condition of their states was worse now than it had been in the last few years (Illinois 46.9%; Indiana 41%; Texas 88.9%), with an additional 41.1% stating that it is the worst they could recall in their career (IL 53.1%; IN 57.7%; TX 11.1%).

When asked the same question about their own school districts, 52.4% said that the financial condition was worse than in the past (IL 73.5%; IN 41%; TX 49.2%), and 15.9% stated that it was the worse they could remember in their career (IL 10.2%; IN 14.1%; TX 22.2%).

In Illinois and Indiana, the superintendents rated their state's financial condition worse than they rated their own school districts (IL 53.1% vs. 10.2%; and Indiana 57.7% vs. 14.1%). In Texas, superintendents rated their own districts worse than they rated the state's financial condition (11.1% for state condition and 22.2% for local district condition).

The superintendents were given a list of possible actions that they may have to take in the near future because of their financial situation. The option selected by the largest number of superintendents (75.7%) was to reduce staff by attrition (not layoffs) (IL 63.3%; IN 70.1%; TX 92.1%). The second method to reduce costs was to increase class size
(obviously, a possible result of reducing staff) with 75.1% of the responding superintendents mentioning this (IL 63.3%; IN 80.5%; TX 77.8%). Next, the superintendents chose “giving very little or no salary increase” with 68.8% (IL 53.1%; IN 84.4%; TX 61.9%). The fourth way to reduce expenditures was to lay off teachers (not by attrition), as stated by 59.3% of the respondents (IL 46.9%; IN 51.9%; TX 77.8%). The only other item chosen by more than half the superintendents was to reduce academic programs, 51.9% (IL 40.8%; IN 40.3%; TX 74.6%).

It is interesting to note major differences between the states besides the ones already mentioned. In Indiana, 83.1% stated that they would borrow money to help their financial situation, while only 7.9% in Texas and 36.7% in Illinois stated this remedy. This may be explained this year in Indiana as there have been delays in districts receiving money. The State of Indiana has told districts that their normal January monthly payment would be paid in December, resulting in that payment being delayed almost a full year. This situation is exacerbated by a court decision that has resulted in all property in Indiana being assessed in a new way, causing most counties to delay sending out property tax bills to homeowners and thus delaying county payments to schools by many weeks.

Both Indiana and Illinois superintendents said that they would install cost-effective procedures (such as heat/cool setbacks) with Illinois responding with 51% and Indiana with 50.6%. On the other hand, only 11.1% of Texas superintendents chose this option. Reducing athletics programs was mentioned by 34.7% of Illinois and 28.6% of Indiana superintendents, but only 12.7% of Texas superintendents wanted to reduce these popular programs. Finally, closing a facility was not a popular option with any of the states, with only 7.9% overall choosing this way to reduce costs (IN had only 3.9%).
Next, the superintendents were asked what measures they had already been forced to take in the last two years. Overall, only one choice, reducing staff by attrition, was selected by more than half the superintendents, 69.8%, and giving little or no salary increase by 48.1%. When looking at the states individually, Texas superintendents indicated that they had already taken more measures to reduce costs than reported by those in the other two states. In Texas, 92.1% had reduced staff by attrition in the last two years (IL 49%; IN 64.9%), 77.8% had laid off teachers (IL 28.6%; IN 33.8%), and 74.6% had reduced programs in Texas (IL 24.5%; IN 33.8%). An additional 58.7% had given little or no salary increases, similar to Indiana’s 57.1%, but higher than Illinois’ 20.4%. No response exceeded 50% for the Illinois superintendents, but 67.5% of the Indiana superintendent had found it necessary to borrow money to make ends meet. Not only did they have to borrow money, but the Indiana superintendents also had to reduce staff by attrition (64.9%).

Indiana and Texas have made provisions that allow school districts to “transfer” money from one fund to another, a practice that has not been allowed in the past. Though there are restrictions, this does allow superintendents more leeway in the use of the funds they receive. In Indiana, 93.4% of the superintendents said that they would take advantage of this change, and 82.5% responded in the same way in Texas.

Sometimes school districts have to curtail the maintenance or repair on buildings in order to save money. When asked if they have had to do this within the last two years, 55.1% of the superintendents in Illinois indicated yes, followed by 49.4% in Indiana, and only 17.5% in Texas. Also, in Indiana, 44.2% said that they would curtail maintenance
this year since they could “transfer” this money to use for operating expenses as a result of legislative action.

In spite of the financial crunch felt in many states, there is often political pressure to reduce state taxes even further. The superintendents were asked if this were true in their states. One hundred percent of the responding superintendents in Texas said that there was a strong desire among some state political leaders to reduce state taxes in spite of the financial condition in Texas. In Indiana, 61.8% agreed, and 57.1% in Illinois felt the same way.

It is also true that state political leaders often want to reduce property taxes even though there are financial difficulties. Again, every Texas superintendent agreed that this was true in Texas; 87.0% in Indiana felt the same way; 71.4% in Illinois agreed.

In most states, the superintendents’ organization works with member superintendents to be politically active in helping the school districts with financial problems, meeting with legislators and trying to influence them to make decisions to help their school districts. When asked if their state organization had been active in doing this, 100% of Indiana and Texas superintendents said that they had, followed by 91.8% in Illinois. One hundred percent of Texas superintendents and 84.2% of Indiana superintendents felt that their organization had been effective and productive in persuading state leaders to provide financial relief. Only 40.8% of Illinois superintendents felt the same way.

Much of the problems at the local school level are probably tied to the overall state and national economic scene. Thus, the superintendents were asked how optimistic they were that these economic conditions would improve in the next two years to what they
were a few years ago. Overall, only 3.7% were “very optimistic,” with 21.7% “somewhat optimistic,” 56.1% “not very optimistic,” and 18.5% stating that they were “not optimistic at all.”

Finally, the superintendents were asked to write in the one thing that could be done at the state level that would help them the most financially. Obviously, the responses varied, but the overall impression was as follows: While there were not many responses from Texas superintendents, those who did respond mentioned instituting a state income tax, eliminating the Robin Hood method of revenue distribution that hurts wealthy districts, and getting rid of the tax cap.

Many Indiana and Illinois superintendents gave suggestions, but the one made most often in both states was to increase taxes at the state level, with either an increase in the income tax or the sales tax, along with a possible reduction in the local property tax. The superintendents recognized that adequacy in funding is important as well as the source of the funding. The second suggestion made by both groups was to eliminate unfunded mandates. Too often states pass laws requiring schools to do things (sometimes good things), but the state depends on the local school district to fund those legislative actions instead of appropriating sufficient funding for those new ideas or projects. Another suggestion was to give superintendents more flexibility in the use of the funds provided. For example, both Indiana and Illinois have funds established with specific purposes, and money cannot be moved from fund to fund (except with the recent Indiana legislation which was done because of the financial emergency). Superintendents would like to consider all their money to be in one pot, so that they could make spending decisions with the total amount of money available. State legislatures have been reluctant to allow this,
especially with mandatory collective bargaining in existence in both states, and since about 85% or more of the current General or Educational Fund goes to salaries and benefits. The state officials fear that if more money were available, it will just go to higher salaries. And, speaking of collective bargaining, some superintendents wished that it would be eliminated.

Illinois superintendents also said that they wanted their state to give them the money they were promised and not make cuts after budgets had been approved and money had been promised to districts by the state. Both Illinois and Indiana have had this happen in the past. In the mid-1980s, Illinois had its monthly checks reduced to 11 one year with the promise of 13 checks the following year. It is a standing joke among Illinois superintendents that they are still waiting on that 13th check. In a similar situation in the early 1980s, Indiana superintendents received a letter saying that the state was cutting each school district’s revenue in the middle of the budget year. The money that was cut was never made up to the schools. As stated earlier, the January state payment to Indiana superintendents this year has been delayed until December. Is it any wonder that some may doubt if that check will arrive during the calendar year (which is also the budget year in Indiana)? Finally, Illinois superintendents want the tax cap eliminated at the local level. This was put into place to keep property taxes from increasing. Both Illinois and Indiana superintendents have suggested that their school funding formula be revised; however, each of these superintendents would obviously like it revised in favor of their individual school district. As two Indiana superintendents said, “more money for at-risk students” and “less money for at-risk students.” Illinois and Indiana superintendents commented that they needed better leadership at the state level, and many superintendents would probably
agree with the Illinois superintendent who suggested: “Prohibit the legislature from meeting.”

The only significant correlation finding was that in Indiana, the more experience that the superintendent had, the greater the tendency to be optimistic about the future economic scene. Perhaps these superintendents have seen the “good” and the “bad” and feel that the current crisis will also pass as others have done in the past.

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I. DOCUMENT IDENTIFICATION:

Title: Superintendent Observations Regarding the Financial Condition of the School District: A 3-State Study

Author(s): William L. Sharp, Bobby G. Malone, James K. Walter

Corporate Source: Publication Date:

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