

# MEETING THE CHALLENGES OF FINANCIAL DIFFICULTIES: HOW METRO-ATLANTA SCHOOL DISTRICTS ACT

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## ABSTRACT

*School districts of the United States have to address their financial problems when economy is in difficulty. This study examines the financial practices of the school districts in metro-Atlanta area to understand how they operate their systems to meet with the challenges. Personal interviews were held with financial officers of six participating school districts. A researcher-developed questionnaire was used to solicit data in four areas of school finance: budgeting, cash management, auditing and financial forecast. Findings of the study indicate that school districts monitor their current budget carefully by working closely with state and local tax commissioners. Districts strictly control their expenditures and trim their current budget with priorities. Additionally, they work with site administrators to ensure their full compliance of the financial procedures.*

## INTRODUCTION

Public school districts in the United States have been prepared for economically bad times and are cautious in watching for their financial status in their daily operation (Owings & Kaplan, 2013). When public education revenues shrink, many school districts automatically respond by reducing expenses in every possible ways to save. What hits the school districts the hardest is that the state government makes announcement to cut education budget by diminishing the commitment of appropriated allotments (Alexander & Salmon, 1995). School districts in Atlanta area, Georgia, are examples of many other districts nationwide that suffered under scenarios of similar financial crisis. This study is aimed at surveying school districts of Atlanta area to seek a better understanding of how school district finance officers managed to live through these hard times to safeguard the best interest of their districts.

## THEORETICAL FRAMEWORK

Over 80% of public school revenues in the U.S. are generated from state income and sales taxes and local property taxes. In economically difficult times, diminished tax revenue devastatingly brings about negative impact on the budget of a school district (Odden & Picus, 2013; Vermont School Boards Association, 2012). Many school districts respond promptly by trimming all possible unspent budget items (Ginn, 2014). Some districts take priorities and choose to protect their teachers and educational programs by simply looking at other areas for budget cuts. Unfortunately, school maintenance and capital outlay programs are always the first ones to be cut (McCuen, 2014). To prepare for possible budget cuts, some school districts initially place a cushion on the annual budget to prepare for possible bad times (New York State Office of the State Comptroller, 2014a). Some districts have a strict policy in screening all district purchase items to ensure that only critically needed items are approved (Hanushek, 2013; Thompson & Wood, 2001). In cash management, many school districts work with state, county and city tax commissioners to arrange speedy trans-

fers of tax dollars to the school district accounts (Alford, 2013; Brimley & Garfield 2004). On the other hand, school districts are very careful in investing their not-yet-used dollars only in safe funds (Combs, 2014). At the same time, school districts have been tightening their regulations on auditing procedures to ensure that district financial policies are strictly followed (New York State Office of the State Comptroller, 2014b). In financial forecasting, school finance officers can identify factors that contribute to forecasting upcoming economic movements (McCuen, 2014). Community growth and population shift data are good indicators for economic forecasting. Frequent communication with federal, state and local tax commissioners will secure information to update school districts' data files (Baker, Green & Richards, 2007).

### **SIGNIFICANCE OF THE STUDY**

In financially difficult times, some school districts survive by using available reserve funds in their budgets. However, districts with no reserve funds will have to start their serious cuts on current budgets to keep their revenues and expenditures balanced. The purpose of this study is to review the financial practices of some major school districts in Metro-Atlanta Area to understand the fiscal problems they face and what strategies they employ to address these tight financial situations. The painful experiences these school districts had during difficult times are worthy of sharing. Other school districts can learn how they tackled the financial crisis to survive.

### **RESEARCH QUESTIONS**

1. What budget management practices do school districts in Atlanta area exercise in keeping a balanced budget?
2. How is system cash management handled by school districts in Atlanta area?
3. How do school district finance officers prepare for the annual financial auditing?
4. What factors do school district finance officers use to forecast the upcoming economic condition of the state?

### **METHODOLOGY**

#### **Design**

This study takes the format of a qualitative interview design. As explained by Fraenkel, Wallen and Hyun (2012):

In a personal interview, the researcher conducts a face-to-face interview with the respondent. As a result, this method has many advantages. It is probably the most effective survey method for enlisting the cooperation of the respondents. Rapport can be established, questions can be clarified, unclear or incomplete answers can be followed up, and so on. Face-to-face interviewing also places less of a burden on the reading and writing skills of the respondents and, when necessary, permits spending more time with respondents.” (p. 397-398)

Direct conversations between the school district financial officers and the researchers were open and straight forward. The reliability of the data adds much merit to the significance of the study.

#### **Research Participants**

Six out of nine school districts in the Metro-Atlanta area participated in the study. The unit of research in this study is school district each represented by a chief financial officer. As a result, two assistant superintendents and four finance directors in the six school districts met with the researchers for face-to-face interviews.

## Data Collection Instrument

The researchers developed a standardized questionnaire with reference to current literature on school finance to solicit ways school district officers employed to manage their financial situations in economically tight years. The questionnaire consists of 14 items soliciting information about how school districts handle budgeting, cash management, auditing and financial forecasting. All the questions are designed to be open-ended and are intended to provide opportunities for the respondents to freely express themselves with no limitation. An initial draft of the questionnaire was presented to the financial officers of the six school districts to check for validity in contents, language and format. Minor revisions were made to the instrument as a result of general consensus. The questionnaire also includes a section on demographic data of a school district to provide the background information of the school district for the readers' interest.

## Data Collection

The researchers obtained permission of the school districts to interview identified school district officers. Copies of the developed questionnaire were mailed to the interviewees before the scheduled interviews to give them time to prepare for the requested data. During the interviews, besides the items on the questionnaire, many additional related questions were followed up. The conversations during the interview were focused on discussing school district financial management strategies in budgeting, cash management, auditing and financial forecasting. Responses of school district officers were audio recorded, transcribed and dated for data analysis.

## Data Analysis

Data collected from interviews with six school district officers were systematically analyzed by categorizing them by the contents as labelled by each of the research questions. Relevant terms were coded and tallied by frequency of their occurrence. Emerging themes and patterns of responses were noted and carefully examined by referencing the strategies employed in budgeting, cash management, auditing and financial forecasting. Comparison of financial strategies was made among the six school districts. The findings of this study were also referenced with those of previous studies in current literature.

## FINDINGS

The demographic data of the six participating districts are displayed in the following:

### School District Demographic Information

School District	Pupil Population	Number of Schools			% of Pupil Receiving Free Or Reduced Price Lunch	% of Pupil by Ethnicity			Last Annual District Budget in million \$
		E	M	H		W	B	O	
District 1	112,000	67	25	16	44.4	38.1	31.2	30.7	986
District 2	97,000	59	19	18	47.5	31.0	43.5	25.5	910
District 3	41,000	24	7	6	56.2	46.2	30.5	23.3	359
District 4	28,000	19	8	5	42.8	50.5	31.5	18.0	253

District 5	23,600	20	8	4	40.5	40.5	35.0	24.5	204
District 6	13,600	9	4	2	38.2	59.6	12.8	27.6	130

Note: School Level: E = Elementary schools; M = Middle schools; H = High schools  
Pupil Ethnicity: W = White; B = Black; O = Others

The six school districts also indicated that, on average, their sources of revenues included approximately 8.5% from the federal government, 38.6% from the State of Georgia, 42.2% from local property taxes and 10.7% from the Special Purpose Local Optional Sales Tax (SPLOST). The financial officers identified instructional expenditures (teachers' salaries and instructional materials) being the highest (67 to 74%) on the expenditure list. Other high expenditure items included school maintenance and operations (9 to 10%), administrative expenses (5 to 6%), pupil transportation (5 to 7%), pupil services (5 to 6 %) and support services (3 to 4%).

The major findings of this study are displayed by research question as follows:

### Budgeting

To prevent an unbalanced budget, school districts have built in a contingency fund in budget planning from 5% to 15%. As one finance director said, "It is not uncommon to reserve an amount equal to one month of the annual budget." Another finance director also added, "About ten percent-age of the budget is reserved under the Superintendent's Discretion Fund to meet with contingency needs." When the loss of revenue is more than the reserved fund, a mid-term budget cut may be necessary to keep the budget balanced. An assistant superintendent confirmed that "a proportional cut district wide is necessary to reduce all the previous appropriations in different accounts." A finance director simply stated, "The Superintendent with the School Board would need to come up with a priority list for budget cutting." Another finance director indicated, "My district decides to cut teachers and instructional programs last." Additionally, some districts put a stringent screening on all the purchase orders. As one finance director said, "We simply freeze all school purchases for the rest of the school year." Another finance director echoed, "Yes, we basically ban all the purchases. Special requests to purchase will need to be approved by the Superintendent's Office."

### Cash Management

To safeguard the sources of revenues, school districts work with the state and local tax commissioners to make arrangements for speedy transfers of federal grants, state appropriations and local property taxes into the school district accounts. One finance director said, "All the federal grants are actually transferred to the Georgia State Department of Education to be distributed to the school districts. All the dollar transfers from account to account have to go through designated pro-cedures and could take time." Another district finance officer also said, "Quick transfer of tax dollars to the school district account not only helps district cash flow but also determination of investment opportunities." Every school district has a cash manager to monitor the discrepancy between the estimated budget dollars and the actual tax dollars received. "Most of the time, the budget estimates and the actual tax dollars come pretty close." said a finance director. An assistant superintendent uttered, "Previously developed budgets may need to be revised according to the real revenue situation." School district officers have been very careful in investing tax dollars in the money market. They prefer investment in low risk low interest foundations to high interest risky funds. As one of

the finance directors stated, “The State of Georgia has established guidelines for school districts to invest their education dollars. Our school board has also outlined safe investment procedures.”

### **Auditing**

School boards in the study require annual internal and external audits of the school districts. A district finance officer stated, “The finance audits of the school district are performed annually for public accountability as well as for policy compliance.” Another finance director also expressed, “The internal audit is conducted to correct all the possible mistakes at district and school levels before external audit.” A district finance director added, “Auditing is more than checking numbers. It is also checking for procedure compliance.” A district finance director also confirmed, “Our district conducts audit workshops with all the school district administrators to stress the importance of following procedures and what and how to follow procedures.” “Focus is on how to prepare and organize documents in support of their finance actions.”

### **Financial Forecasting**

A finance director said, “Government finance officials at the state and local levels have first-hand information about finance activities in the near future. With the most updated information they provide, we at the school district perform a trend analysis of data to generate an economic forecast of the region.” Data school districts used for financial forecast include records of property sales, house forecloses, residential and commercial developments, unemployment rate and student enrollment growth. One school district is very detailed about financial forecasting. Its financial director said, “We do a month by month forecast of the state and county finance with foci on the actual revenues received including tax collection, investment earnings and cost of living index.” Another finance officer added, “Our district has accumulated data of recent years to perform a long- range forecast. Learning the economic cycle of the state or region, we are better prepared to face the anticipated challenges to come.”

## **DISCUSSION**

It is evident that the school districts in this study have experienced a steady to rapid increase in the Hispanic pupil population. It has obviously placed burden on the pupil expenditure budget, particularly on teacher allotment, instructional programs, facility utilization, food services and transportation. Special language programs may be needed to help with the Hispanic children.

The size of the school district does not seem to have much effect on the procedures of addressing school finance issues. School districts, regardless of their sizes, are unwilling to miss any major steps to secure a sound school district financial system. Some larger school districts, because of their availability of fiscal resources, are able to manage their financial business more sophisticatedly than smaller districts, such as close monitor of financial forecast.

With reference to per pupil expenditure, the amounts of the six school districts are very close. Since a substantial portion (approximately 40%) of the district budget dollars are actually state allotments, every school district receives the same amount per pupil based on adjusted school attendance. The difference in school district wealth is really showing the difference in the millage raised on property taxes in each district.

The percentage of pupils receiving free or reduced price lunch in the district does not seem to impact the school district annual budget. The amount to subsidize pupils receiving free and reduced price lunch is actually reimbursed by the federal government by actual count on per meal per pupil. After all, a portion of the cost per meal is paid by some affordable parents.

The district sources of revenues in the study are in agreement with the school district revenue proportions as shown in the literature (Odden & Picus, 2013; Vermont School Boards Association, 2012). The only noticeable difference in revenues of the six school districts is in the amount generated by SPLOST. School districts with more major highways have more commercial areas that are able to generate more tax dollars through SPLOST.

All the school districts in this study place high priority of their annual expenditures in classroom instruction including salaries and benefits of teachers and purchase of instructional materials. Other priority expenditures also include school maintenance and operations, pupil transportation and food services. It is noticeable that the central office and school administrative expenses have been kept to the minimum (5-6%).

### **Discussion on Budget**

The finding that school district officers reserve dollars in the budget for contingency is in agreement with the findings of current literature (New York State Office of the State Comptroller, 2014a). However, wealthier school districts of Metro-Atlanta can afford to reserve more contingency dollars than poor school districts. School district finance officers have indicated that, during budget cut, they would freeze unspent budget items and strictly screen on special requests of purchases. Current literature on budget constraint also supports these stringent measures on protecting the school district budget (Ginn, 2014; Hanushek, 2013). The school districts take it a first priority to protect the pupil instructional programs during budget cut. This finding is also reflecting the current position of Ginn (2014) and McCuen (2014). Additionally, McCuen (2014) also indicates that school maintenance budget is always the first to be cut. However, the school district finance officers in this study indicated that school maintenance and operations is one of the top items of expenditures in their budgets.

### **Discussion on Cash Management**

In cash management, the findings of this study concur with Alford (2013), and Brimley and Garfield (2004) who indicated that many school districts worked with state, county and city tax officials to have tax dollars quickly transferred to the school district accounts. On the other hand, Combs (2014) found that school districts have been very careful in their cash investment in safe foundation funds. The district finance officers in this study also stated that they were in full compliance with state and district investment guidelines.

### **Discussion on Auditing**

Current literature has shown that school districts have been tightening up their policies on auditing finance procedures (New York State Office of the State Comptroller, 2014b). The findings of this study are in agreement with the New York State Office of the State Comptroller. School districts in this study have even gone further by conducting workshops to prepare district and local administrators for documentation so they can fulfill the accountability requirements and be ready for the audits.

### **Discussion on Financial Forecasting**

In financial forecasting, McGuen (2014) has pointed out that experienced school finance officers can identify factors that contribute to forecasting economic conditions. Metro-Atlanta school finance officers have used demographic data of community growth and population shifts

for economic forecasting. Some large districts have also reported conducting monthly economic forecasts. Findings in this study have also shown that district finance officers have made frequent communication with state and local tax commissioners to update the school districts' data files. This is reflecting the same financial practice as recommended by Baker, Green and Richards (2007).

### **IMPLICATIONS**

The financial practices of the six Metro-Atlanta school districts have more in common than difference in budgeting, cash management, auditing and financial forecasting. The school district financial officers of the Metro-Atlanta area school districts meet on a frequent basis to share their experiences in financial management. They learn from one another new knowledge and techniques that could possibly apply to their own school district. Georgia State Department of Finance also calls up state meetings to share the latest fiscal information.

The finance officers of the six school districts in this study have placed great emphasis in preparing themselves to meet with future challenges of school finance issues. They have taken cautious steps like many school districts nationwide to safeguard their school districts' education dollars. Additionally, they conducted many workshops with district and local school administrators to make sure that all the administrators fully understand the significance and the process of auditing. This is an important step in establishing professional ethical standards and to mandate their full policy compliance. In financial forecasting, some Metro-Atlanta school districts have set good examples for other districts to learn by demonstrating their serious forecasting effort. The school districts are fully prepared for meeting any challenges of upcoming fiscal hard times.

### **CONCLUSION**

This study is designed to examine the financial management practices of major school districts in Metro-Atlanta area. The process of the study includes reviewing the financial management practices commonly conducted by school districts nationwide. Through examining the data collected in this study, the researchers found that school district finance officers in Metro-Atlanta area have performed an excellent job in managing their school districts' finance. Not only their financial practices are in alignment with commonly agreed national standards, but also they have exerted great effort in preparing themselves to meet with future financial challenges. The findings of this study contribute to affirming the common financial practices exercised by school districts nationwide. It also has highlighted some unique financial management initiatives practiced by Metro-Atlanta school districts. School districts worldwide can learn from the successful experiences of Metro-Atlanta districts in implementing sound financial management practices.

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