OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

School District Finances

February 2, 2000

There is not a statewide financial crisis in K-12 education, but some school districts are experiencing financial difficulties.

Major Findings:

- The financial condition of school districts has generally improved during the 1990s. (p. 43 and p. 75 in the full report)*
- Although over one-third of the districts report making budget cuts this year (p. 69), the statewide teacher-student ratio is expected to hold at or near the high reached last school year. (p. 71)
- More districts added academic courses or programs this school year than eliminated them. (p. 70)
- Inflation-adjusted general fund revenues per student increased modestly during the 1990s, with most of the growth occurring after 1993. (pp. 25-26)
- Districts used the growth in revenues to increase fund balances and to provide more funding for instruction and related activities. (p. 31 and p. 33)
- Part of the growth in spending resulted in increased teacher-student ratios in kindergarten and other elementary grades, particularly in the last few years. It is unclear how staffing ratios in secondary schools have changed. (p. 50)

*For the full evaluation report, *School District Finances* (#PE00-04) which includes the agency's response, call 651/296-4708 or download from:

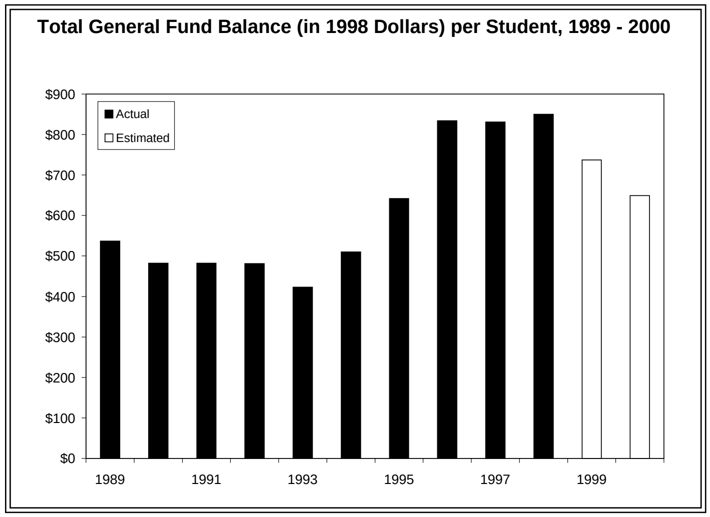
www.auditor.leg.state.mn.us/ped/2000/PE0004.htm.

- Spending on special education also increased during the 1990s due to a substantial increase in the number of students with emotional or behavioral problems, rising transportation expenses, and growth in programs for preschool children. (p. 31)
- Average salary growth has not been a major cause of statewide spending growth. Even though many individual teachers have received salary increases in excess of inflation, the statewide average teacher salary has decreased slightly in inflation-adjusted dollars. Retirements, the hiring of additional teachers, and a slight inflation-adjusted decline in salary schedules have kept statewide average salaries from growing. (pp. 52-57)
- While no single factor explains why some districts have experienced declining fund balances or had to cut spending, the factors may include declining enrollment, low staff turnover, growing special education or transportation costs, inadequate management practices or fund balance policies, and the less favorable impact of state funding formulas on some districts. (pp. 78-80)

Although fund balances declined in 1999, they have generally grown during the 1990s.

Report Summary:

School districts are generally in better financial shape than they were ten years ago. Inflation-adjusted spending per student increased modestly during the 1990s. In addition, fund balances and teacher-student ratios rose statewide. Despite this general improvement, some districts experienced financial problems due to a variety of factors. Declining enrollment seems to be affecting more districts in the last two years and causing some of the financial stress.



School District Finances Improved During the 1990s

School districts generally experienced improving financial conditions between 1989 and 1998. Inflation-adjusted general fund revenues per student increased modestly. The growth in revenues was used to significantly increase fund balances and to provide some growth in spending. The number of teachers and other licensed staff per 1,000 students also rose to levels not seen for at least 20 years.

Most of the improvement in school district finances has occurred since 1993. For the first few years of the 1990s, fund balances declined and the number of districts in statutory operating debt increased. Inflation-adjusted spending per student also dropped slightly. Since 1993, there has been a reversal of the trends experienced during the early 1990s. Financial conditions in 1998 were much better than at the start of the decade.

Some worsening of financial conditions occurred during 1999 and may be occurring this school year as well. Fund balances decreased during 1999, and school districts project a further decline this year. In addition, the number of districts in statutory operating debt increased. Despite this worsening of financial conditions, districts are generally in better shape than they were ten years ago.

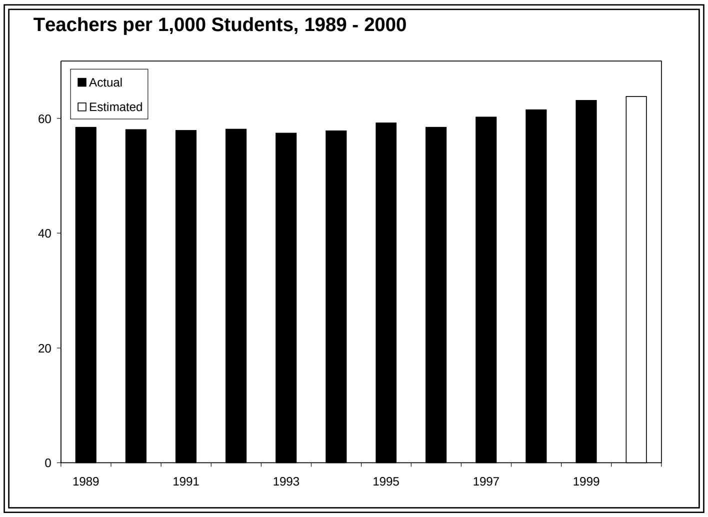
Over one-third of school districts reported that they made budget cuts this year. However, spending per student does not appear to have decreased. Preliminary estimates indicate that the number of teachers and other staff per student will be near the highs reached in 1999. In addition, during the current school year, more districts added academic courses or programs than eliminated them.

Districts Have Placed Additional Resources into Instruction

Most of the growth in school district general fund spending during the 1990s has gone into increasing instructional staff and other instructional resources. In recent years, districts have responded to legislative funding initiatives to reduce class sizes in kindergarten and certain other elementary grades. As a result, there are fewer students per teacher in elementary schools. It is unclear how the number of students per teacher have changed in secondary schools.

Special education spending has also grown during the 1990s. A substantial

Spending growth has been used to increase instructional resources.


Teachers per 1,000 Students, 1989 - 2000

increase prior to 1996 in students identified as having emotional or behavioral disorders is the most significant factor behind the growth in special education spending. Other factors include rising transportation expenses, growth in programs for preschool children, increased spending on support services such as those provided by social workers and psychologists, and substantial growth in the numbers of autistic children and children with various health impairments.

Spending on instructional support activities has also risen over the last ten years. Instructional support includes expenditures on curriculum development, computer assisted instruction, libraries and media centers, and assistant principals.

Salaries Have Not Been the Source of Statewide Spending Growth

During the 1990s, average salaries of teachers and other licensed staff declined slightly in inflation-adjusted dollars. The decline in average teacher salaries occurred even though many individual teachers saw their salaries increase faster than inflation. The hiring of new teachers in response to enrollment growth and to reduce class sizes helped to keep the average teacher salary from growing faster than inflation. In addition, teacher salary schedules tended to increase a little slower than inflation.

While salary growth has not been a source of statewide spending growth, it has been more of a factor for some districts. Four-fifths of districts that consolidated between 1989 and 1999 experienced an increase in average inflation-adjusted salaries for licensed staff. A majority of other districts outside the Twin Cities metropolitan area also experienced growth in average salaries.

Some Districts Have Experienced Financial Problems

While most school districts have enjoyed improving financial conditions during the 1990s, some districts have not. About one-sixth of the districts experienced a decrease in inflation-adjusted expenditures per student between 1989 and 1998, and about one-third had declining fund balances per student. Others have needed to make budget cuts in order to maintain their fund balances. The number of students per teacher rose in about one-fourth of all school districts.

There is no single reason that explains why some districts have experienced financial and budget difficulties and other districts have not. Differences in management practices, fund balance policies, the growth in costs, and the impact of state funding formulas all have an effect on the financial health of districts. In addition, districts vary in the extent to which they can afford to keep pace with salary settlements in other districts. A district having low staff turnover is more likely to experience financial problems, particularly if it attempts to match salary settlements in other districts.

Declining enrollment may also explain some of the problems experienced by districts during the 1990s as well as the greater number of concerns expressed by districts this last legislative session. While enrollment has increased during the

Declining enrollment is one of the factors contributing to financial problems in some districts.

1990s, more districts are beginning to see their enrollment reach its peak and begin to decrease. Preliminary estimates suggest that, in the last two years, close to two-thirds of all school districts experienced a decline in enrollment. While enrollment in charter schools, home schools, and other alternatives to public school enrollment has increased, this factor does not appear to be the primary reason why enrollment is declining in many districts.

Declining enrollment puts financial and budgetary pressure on districts because school districts must cut the least senior and lowest paid teachers first. As a result, districts may have to make larger percentage reductions in staff than the decline in enrollment and revenues. It can also be difficult for districts with declining enrollment to make cuts in building and transportation expenditures proportionate to enrollment decreases.

Some Important Questions Remain

Some important questions cannot be answered by an examination of financial and staffing trends. Although spending has grown modestly during the 1990s, it is unclear whether current spending is adequate to educate today's students or whether public schools are making the most of the revenue available to them. Clearly, school districts are now facing a student population that is more challenging to serve than students ten years ago. In addition, expectations that citizens and policy makers have for the performance of public schools have risen. But, whether funding is adequate to serve the current student population and meet expectations is not an easy question to answer.

It is also difficult to say what level of funding schools will need in the future to maintain their current staff-student ratios and performance levels. Much will depend on the salaries necessary to attract and retain quality teachers and other staff. In addition, future trends in other costs and in the size and composition of the student population will be important.

Summary of Agency Response:

In a letter dated January 21, 2000, Commissioner Christine Jax of the Department of Children, Families, and Learning wrote: "In our view, the report accurately and fairly portrays the major trends in school district finances since 1989."

She also said the department was "pleased that many districts reported that they will lower elementary class sizes this year. We are concerned, however, that more districts did not report that they will lower elementary class sizes, given the major increase in class size reduction recommended by the Governor and enacted by the 1999 Legislature."

In conclusion, the Commissioner said that while "there is no evidence of a statewide financial crisis in K-12 education, we need to find ways to measure if Minnesota districts are making the most of current revenues, to tie spending to measures of student success and to develop other accountability indicators. . . ."