

Are School Districts Immune to a Weak Economy? Don't Believe It!

By Jeffrey Horner

Why should school districts worry about today's down economy? After all, the vast majority of their income comes from state legislatures and local property taxes, with some additional funding from the federal government. This funding is unaffected by downturns in sales, the stock market, and other basic economic indicators.

Wait a minute. School business officials should not buy into this misconception. While the effects of a bad economy may not be as drastic for public entities, school boards are adversely affected by a weak economy and should plan for such circumstances.

Where Districts Suffer

Many aspects of a down economy affect school districts. Here are just a few areas that can change a district's finances.

State legislative cuts. Probably the most significant area that affects school districts in a down economy

is at the state legislative level. State legislatures, which are always looking to save money, generally become even more frugal. Therefore, school business officials and other education leaders in virtually every state must fight to maintain their fair share of funding.

No doubt, lobbying efforts are already under way nationwide to ensure that school districts continue to receive a fair share of the state financial pie, or at least to ensure that their share is not overly affected.

Property devaluation. Close behind legislative cuts is the issue of property devaluation. In a down economic market, real estate prices typically decrease. When property values lessen, the amount of money received from local property taxes also decreases. Of course, school districts can raise tax rates, but statutory limits on raising tax rates exist nationwide.

Further, the political effect of raising taxes in a down economy can be severe. Thus, property devaluation can have a major effect on the revenue ultimately received by school districts.



Student population. Many parents send their children to private schools in good times. However, when money tightens, one of the first changes can be the academic venue of their children. The neighborhood public schools now seem like a viable alternative, especially when a family can save thousands of dollars in tuition.

Increased student populations can affect school districts' finances negatively. Although school districts receive increased state funding when their average daily attendance rises, the state allotment often does not cover the true cost of educating a student. Coupled with property devaluation and the subsequent loss of revenue, the cost of educating more students can stress school districts financially.

Access to credit. Contrary to popular belief, school districts do not buy all their personal and real property with cash. Like any other large institution, they depend on credit to a degree to buy such essentials as computers and school buses.

In today's environment, access to credit is much more difficult. Accordingly, school districts must jump through many more hoops to secure credit. Even then, school boards may not receive the amount of credit necessary to finance essential school functions.

Public bonds. In a weak economy, the bond ratings of school districts may suffer and the number of active buyers for school bonds may decrease. In addition, most state

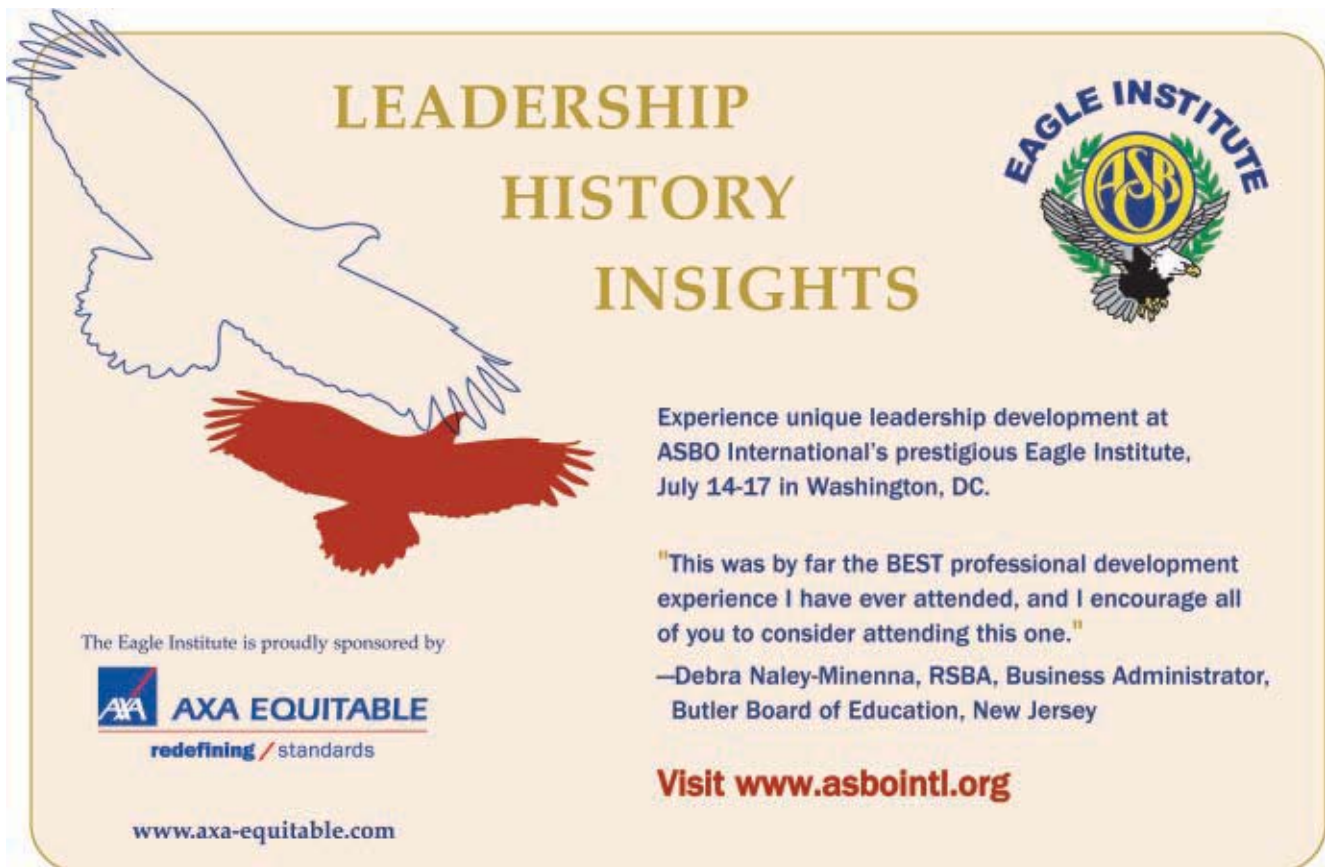
laws require voter consent before issuing bonds. Receiving favorable votes from the electorate on bond issues can be much more difficult during down economic times.

Tax rollback concerns. As discussed earlier, property devaluation can cause a loss of revenue. Sometimes, school districts will try to recoup at least part of the revenue loss through a tax increase. However, school districts must be wary about tax increases because too large an increase can trigger a tax rollback election under some state laws. Under this theory, upon voter approval school districts can be subject to the rollback of their tax rates to previous levels.


Weathering Bad Times

Although public entities such as school boards may be better able to weather bad economic times than banks, lending institutions, carmakers, airlines, and other private companies, school districts are not immune to the negative effects of a down economy. Thus, school business officials must be cognizant of these risks and develop comprehensive strategies to minimize the negative financial effect on their districts during hard economic times.

Jeffery Horner is the head of the public law section at Bracewell & Giuliani LLP in Houston, Texas. He has counseled school districts, colleges, and private schools at all levels of education. Email: Jeffrey.Horner@bgllp.com.



**LEADERSHIP
HISTORY
INSIGHTS**




Experience unique leadership development at ASBO International's prestigious Eagle Institute, July 14-17 in Washington, DC.

"This was by far the BEST professional development experience I have ever attended, and I encourage all of you to consider attending this one."

—Debra Naley-Minenna, RSBA, Business Administrator, Butler Board of Education, New Jersey

Visit www.asbintl.org

The Eagle Institute is proudly sponsored by



www.axa-equitable.com