Avoiding Risky Business: Sound Business Practices across the District

With some forethought, school business officials can avoid unpleasant situations in the areas of school district finance.

By Richard Weeks, RSBA

School business officials (SBOs) are a thoughtful, ethical, well-educated, and experienced group of professionals who serve as part of their district's or municipality's administrative team and who ultimately report to elected governing boards. Yet few of us have significant bottom-line decision-making authority.

For whatever reasons, SBOs are often embroiled in situations that involve neglect in managing operations or outright foolish business decisions that have potentially hostile or serious outcomes.

Let's review several disparate matters that can be "risky business" yet are completely preventable.

Faustian School Borrowing Practices

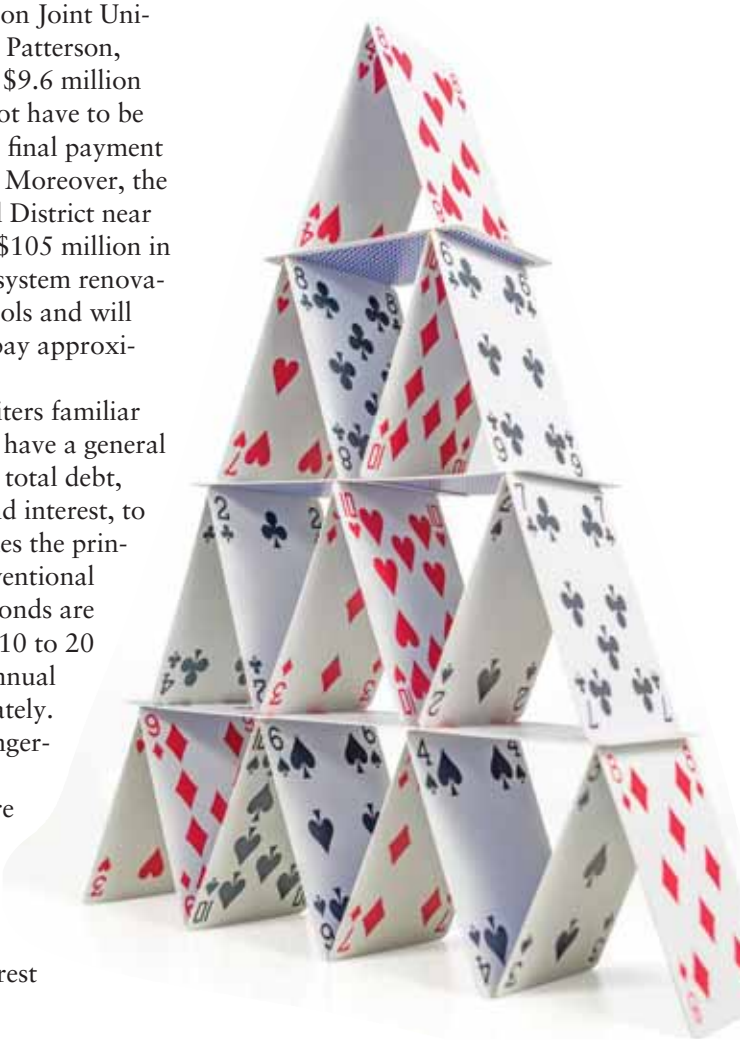
When local referenda to incur debt for school construction projects are on the ballot, voters are often enticed into purchasing capital appreciation bonds (CABs) because such borrowing does not contribute to increases in their near-future property taxes.

Unlike the conventional current interest bonds that most districts purchase, CABs don't require immediate and regular principal and interest payments to the bondholders. With CABs, debt payments can be deferred for decades, with interest compounding to as much as 6, 12, or more times the principal on the original amount borrowed. Regulators in Michigan banned CABs in 1994, and other states, including Delaware and North Carolina, have strict limitations on their use.

CABs are popular in California, Florida, and Texas. In a November 29, 2012, *Los Angeles Times article,* California Treasurer Bill Lockyer, stated that the Patterson Joint Unified School District in Patterson, California, borrowed $9.6 million in 2009, which will not have to be repaid until 2049; the final payment will be $96.6 million. Moreover, the Poway Unified School District near San Diego borrowed $105 million in 2011 for mechanical system renovations to its aging schools and will eventually have to repay approximately $1 billion.

SBOs and underwriters familiar with funding projects have a general rule of thumb: expect total debt, including principal and interest, to be only 1.5 to 2.5 times the principal borrowed. Conventional school construction bonds are commonly issued for 10 to 20 years, with the first annual payment due immediately. Districts that issue longer-maturing bonds can anticipate paying more in interest payments. These school districts must eventually pay the bondholder with the principal and interest in one lump sum on the bond's maturity date.

Your district's contracted financial advisers and underwriters must be up front and transparent with local officials and the public, because the terms and conditions of long-term debt borrowing can be very complicated.



Revenue Expectations from School Closures

When schools are closed, the public often expects financial windfalls. It's best not to hold out for this pie in the sky.

According to the National Center for Education Statistics, 1,069 public schools were closed in 2011. The reasons for closure are varied and include (1) a sharp decline in the number of school-age children, (2) districts' lack of interest in repairing worn-out facilities, (3) competition from charter schools, and (4) the U.S. Department of Education's mandates to shutter underperforming schools.

In addition, the green school movement is gaining traction, with districts consolidating older buildings while constructing energy-sustaining new schools. Many states have pushed smaller districts to regionalize, saving dollars in merged administration and overhead and maintenance costs.

A recent study by the PEW Charitable Trusts (www.pewtrusts.org/our_work_report_detail.aspx?id=85899365152) exposes that the closure of more than 200 schools in Philadelphia and six other large cities garnered very little savings. What's more, many closed schools are still vacant, often-vandalized eyesores contributing to the blight of their neighborhoods.

Suburban districts don't fare much better. Anoka-Hennepin School District in Minnesota established a facilities task force to review potential school shuttering in the 30-school district. According to the final report the average school closure would yield a one-time saving of approximately $565,600. With an annual school budget of $393 million, the average saving would be a paltry 1.4%

The real beneficiaries of suburban school closures may be real estate developers.

In most school districts, whenever a school is closed and sold, the proceeds revert to the taxpayers of the municipality in which the school is located. However, the real beneficiaries of suburban school closures may be real estate developers, who can acquire the school site at bid and flip it into high-end residential or commercial properties.

When contemplating school closures, districts should not overlook the potential contributions of their SBOs. They compile significant data in preparing their annual budgets, including staff salaries, utility costs, capital improvement needs for district facilities, and enrollment projections.

Looking at recent birth rates is relatively easy, but trying to second-guess the intentions of parents facing the closure of their neighborhood school is another matter.

According to a January 29, 2009, *Seattle Times* interview with Seattle Public School administrators, Seattle Public Schools actually lost approximately $800,000 a year in Washington State school aid when it closed schools in 2006 because 20% of the students from those schools left for charter, parochial, and private schools.

Districts contemplating school closures should commission economic impact studies to determine the effects such closures may have on their urban neighborhoods or small-town centers. City schools also serve as community meeting and gathering places, as well as polling sites.

In a small town, the school may be its biggest employer and may serve as its cultural and economic hub. "Customer traffic" to local merchants and services depends on that school's remaining open. When the school is shuttered, everybody loses.

SBOs have the resources to help with first-year projected savings from closing schools. Longer-term savings are more difficult to predict and should be made by independent consultants who are familiar with economic development forecasting.

Bus and Fleet Safety

Busing is back to being big business, with new bus sales soaring after years of steady decline. The National Center for Education Statistics reports that Americans spent approximately $22 billion to transport 26 million students in 2009.

Save your district some money and minimize the health risks associated with exhaust by reducing the idle time of your fleet. Let's assume that your fleet includes 50 buses, and diesel fuel costs about $5 per gallon. Many buses can burn through a half gallon of diesel fuel per half hour of idling. If you set a goal of reducing

idling time by 30 minutes per bus per day, you could save about 2,275 gallons of diesel and $11,375 this year (50 buses × 0.5 hours/day × 0.5 gallons of fuel × $5 per gallon ×182 school days). The savings can be redirected to providing that much-needed monitor on one of your special-education vans.

Busing is back to being big business.

School districts regard the bus as an extension of the classroom insofar as student expectations for conduct and behavior are concerned. Your school transportation policy should also be updated to include professional development for bus drivers. Most teachers have 20–30 students in their care, but bus drivers frequently have 60–70 students on the bus.

The National Association of State Directors of Pupil Transportation Services offers online training for drivers and passengers that you may find helpful (www.nasdpts.org, click on **Operations**). It also offers school bus driver security training (www.nasdpts.org, click on **Security**). That program's objectives are designed to give school bus drivers the knowledge and skills required to effectively identify and report perceived security threats and to react appropriately to actual security incidents. Another helpful training module for drivers is *See Something. Do Something: Intervening in Bullying Behavior*, funded by the U.S. Department of Education.

Don't forget about professional development for your mechanics. In some states, all bus mechanics are required to participate in an annual training seminar. Your state may have training opportunities through transportation organizations, such as the Colorado State Pupil Transportation Association. Training sessions are often supported by bus manufacturers and suppliers of specific parts.

With the economy as bad as it has been, there is considerable push-back not to fully fund the requirements necessary for a good preventive maintenance program for school buses. Because of the sophistication of the newer buses, they require as much attention as older buses. It's a real high-tech/low-tech environment, with numerous onboard computerized modules that need service, as well wear points in the axles that need lubrication.

Bus manufacturers recommend preventive maintenance schedules as part of their warranties, and most states have statutes requiring certified inspectors to perform a comprehensive check before issuing an inspection sticker for a bus. The more progressive states require pulling the wheels to check the brake components during inspections and inspecting batteries.

One frequently asked question during budget hearings is, "How many years or miles can we keep our vans and buses on the road?" If you are a southern state, the answer is, "Indefinitely, providing you continue funding an effective preventive maintenance program and that the vehicles pass inspection." The favorable climate and good road conditions can keep buses in use for nearly a generation.

Fleet managers who keep good records on the annual maintenance costs of the buses know the optimal time to unload buses to avoid major maintenance costs. Until the Great Recession, several states subsidized districts' purchases of new buses.

The estimated 480,000 school buses in use today will eventually need replacement. Only a few states have retirement rules for vans and buses.

In Conclusion

When in doubt about a situation you find yourself drawn into, speak up and share your concerns. Ask your superintendent or school board chair to review your concerns with the district's legal counsel. Wherever you work, sound business practices should always prevail over risky business.

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