GEARING UP FOR A STATE-LEVEL CONVERSATION ON REDUCING SCHOOL DISTRICT EXPENDITURES AND INCREASING EFFICIENCIES

By Terry Spradlin, ISBA Executive Director

In my last column in the winter edition of *The Journal*, I made a case that to maintain the strong return on the investment that Indiana's K-12 public education system produces, stable funding for public schools is essential. I listed several student achievement indicators and trends that put our public schools among the best in the United States. What makes this story so compelling is that Indiana ranks 37th in the nation on per pupil spending and, according to a 2025 Reason Foundation Report, last in the nation in the increase in education spending from 2002 to 2023.

In my regular conversation with school leaders and when reading the headlines in ISBA's *School News Daily*, it is apparent that the quality of public education and our significant gains in student achievement are at risk. Some of these headlines have alluded to millions of dollars in loss of revenue or budget cuts, staff reductions, rising insurance and utility expenses, and reduced bus routes or delays to school bus replacements, to mention some of the financial challenges. We are only in the first 12 months of the implementation of Senate Enrolled Act (SEA) 1-2025, and school corporations are continuing to adjust to the constraints this law has imposed on the property tax rates and levies of local units of government. Without the "replacement revenue" provided through local option income taxes granted to counties and municipalities, school corporations are the local unit of government hit hardest by the property tax reforms. Absent modifications to SEA 1 or supplemental funding sources, the next three years will be daunting, pushing many school corporations to a fiscal cliff.

I have heard conversation within the State House that school corporations "just need to be more efficient" evidenced by legislation recently enacted in the 2026 short session to require the Indiana Department of Education (IDOE) to conduct an efficiency study of school corporations and charter schools. Could this study be a precursor to legislation to mandate school corporation consolidation in counties below a certain population or districts below a certain number of students?

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SOURCE:
2025 REASON FOUNDATION REPORT

While you are coping with the "new norm" of your revenue projections for the Operations and Debt Service Funds, navigating these financial forecasts or challenges will require good fiscal stewardship, effective communications, and community advocacy. A unified leadership approach is needed to gear up, know your numbers, and tell your financial story to your public. This fiscal transparency and accountability will build community understanding, trust, and allegiance. How did we get here and what can we do to be ready for the road ahead?

REVENUE DECLINES PROJECTED

As previously stated, the substantial progress in student achievement underway is at risk with shifting economic conditions, revenue declines, and changes to school funding that have slowed the meaningful investment made by the state over the past six years in K-12 education. Balancing state fiscal management with the investment in state programs and priorities is challenging. Indiana has long prided itself on maintaining low property taxes. While major property tax reforms over the years have succeeded in lowering taxes—Indiana now ranks 39th nationally in property tax as a percentage of personal income—there's a resulting consequence of the erosion of essential public services. School corporations alone are projected to lose over $770 million in property tax revenue over the next three years because of SEA 1. That's on top of the "circuit breaker" losses of $4.2 billion since 2009 due to the imposition of tax caps. School corporations are already stretched thin. Most of their Operations Fund goes to insurance, utilities, and transportation, leaving little for facility upkeep or new construction. SEA 1, when fully implemented, will prompt school corporations to spend down reserves, cut staff, delay building projects, and rely on aging buses.

With fewer dollars in the Operations Fund, schools will be forced to transfer more from Education Fund—money meant for classrooms and teachers. That means potentially smaller pay raises, larger class sizes, and a less experienced teaching workforce. The growing instability of levy dollars will also negatively impact the credit or bond ratings of school corporations, driving up the costs of borrowing. Many districts will turn to referendums—asking voters to approve new taxes just to maintain core services. ISBA anticipates as many as 60 to 70 school corporation referenda in November.

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2026 SESSION OUTCOMES FORESHADOW BIGGER CONVERSATION NEXT SESSION

The 2026 short session of the Indiana General Assembly that adjourned on Friday, February 27, produced two laws that are pertinent to the school finance conversation you are grappling with today. First, House Enrolled Act (HEA) 1210, the Department of Local Government Finance agency bill of more than 400 pages, includes two changes to the effective dates of SEA 1 provisions that will benefit school corporations temporarily. First, the law delays the elimination of the mandatory redistribution of local income taxes to school corporations in former CAGIT counties from CY 2028 to CY 2029. This change of effective date will mean that school corporations will receive approximately $60 million collectively for an additional year before the revenue is gone.

HEA 1210 also contains a "protected taxes" provision concerning the Debt Service Fund and levy losses associated with the new 10% homeowner property tax credit. In essence, this provision maintains a district's ability to protect their Operations Fund from taking all the losses due to the credit (by balancing the losses with use of any cash balance in the Debt Service Fund). The SEA 1 "protected taxes" provision for the Debt Service Fund will now be effective in 2027. These are helpful, albeit temporary, aids to your financial management efforts.

House Enrolled Act 1242 (Public Law 55), on the other hand, will continue, if not intensify, the conversation on school district revenues and expenditures this year in advance of the 2027 budget session. This law calls for the completion of two studies that are due by December 1, 2026. First, Indiana's Department of Local Government Finance (DLGF), in consultation with the Indiana Department of Education (IDOE), is required to conduct a study of the disparities in per student operational funding amounts in school corporations within each county and provide an estimate of the amount of additional funding that would be required to bring school corporations with per student operational funding below a median level up to the median level. This study could be helpful if it produces a "funding floor" that all school corporations are leveled up to but could also signal a move to level the Operations Fund at a foundation amount all districts would be limited to receive. Let's see what the recommendations are when the study is released.

The second study requires IDOE to prepare a report that compiles certain statewide data on school corporations and charter schools with recommendations to include: (A) increase school corporation and charter school administrative efficiencies; (B) reduce school corporation and charter school administrative costs; and (C) improve student outcomes. The basis for this study infers that school corporations are inefficient and spending too much on administrative expenses and should deploy strategies to reduce these costs. Some policymakers have suggested that school corporations with declining or small enrollments, or that are among multiple school corporations in a county with small population (e.g., 50,000 or less), should consolidate central office administration.

K-12 EDUCATION MANAGEMENT ASSOCIATIONS TAKING PROACTIVE APPROACH

In preparation for the policy conversation that these studies will generate, several statewide K-12 education management associations have come together to commission our own study. ISBA has been joined by the Indiana Association of Public School Superintendents (IAPSS), the Indiana Association of School Business Officials (IASBO), the Indiana Small and Rural School Association (ISRSA), the Indiana Urban Schools Association (IUSA), and the Coalition of Growing and Suburban Schools to collaborate on this research that will be conducted by the PAVE Education Consulting Group. This research will look at Indiana's rankings in the Midwest and nationally on K-12 revenues and expenditures, while examining enrollment trending, staffing, service delivery, and student achievement outcomes from a state and local lens. In addition, the group of associations will be conducting a statewide survey to catalogue the scope and depth of efficiency strategies currently being utilized by school corporations. Examples of efficiency strategies the survey will gauge include participation in health insurance or property and casualty pools/trusts, energy consortia, joint purchasing, shared personnel, etc.

The results of the survey and study will be available this summer, and the findings and recommendations will be shared with agency leaders, policymakers and their fiscal leaders and staff, and the governor's office. We hope this information helps inform the conversation on school corporation efficiencies and influences any potential conversation about school corporation consolidation. Results of this work will also be shared with ISBA members via the annual School Budgeting and Finance Seminar to be held on June 18, a concurrent session at the Fall Conference, and via future columns that I will write and distribute to you. ISBA anticipates that the study will show an array of cost efficiency measures that are already being deployed and favorable comparisons in all expense categories nationally.

GOOD FISCAL STEWARDSHIP IS NECESSARY

School boards and leadership of school corporations have shared responsibility to provide good fiscal stewardship and to respond to whatever the financial situation or constraints before them. If you demonstrate effective financial management, the need for state intervention or mandates will be lessened. Elements of good fiscal stewardship include model board governance, proactive planning, and transparency and accountability.

Model Board Governance

The financial oversight of a school corporation and adoption of the annual budget are core responsibilities of every school board. School board members are entrusted by the community with financial resources to provide effective educational services to students. They are expected to approve a budget that spends tax dollars in an efficient and responsible manner. ISBA contends that the annual budget should be aligned with the goals articulated in a strategic plan, with emphasis on strategies to elevate student achievement outcomes. From an oversight perspective, it is incumbent of board members to ask the right questions and request and receive adequate financial data before making an informed decision.

Proactive Planning

The proactive planning efforts of school boards are to review and understand the monthly board packet and the information it includes in the financial report and approval of claims. You should receive and review the Fund reports, the monthly and year-to-date expenditures included in the Appropriations Report and/or Cash Flow Statement, and other financial benchmarks (e.g., ADM trending, tax cap impact, capital projects plan, and major grants). Fund balances should be easily identified and monitored. ISBA has developed a "monthly checklist" for your use to ensure that you are seeking the essential information and asking the right questions every month throughout the year. This checklist and other helpful resources are available in the biannual ISBA publication, "Budgeting and Financial Oversight for School Board Members Resource Guide."

Transparency and Accountability

This essential element of good fiscal stewardship includes the school board's role in ensuring sound internal controls. No one person, including the superintendent, should control all aspects of the budgeting and financial management process. Your board policy manual should include policies and procedures that speak to your internal control guardrails to provide checks and balances in your system. The school board's role is to be the check and balance for the annual budget, monthly fund reports, and the appropriations report. You are to receive the annual investments report and financial conditions report from the superintendent or their designee every January. In addition, the board should receive and review the audit report whenever issued by the State Board of Accounts (SBOA). If a corrective action plan is required by the SBOA, the board should ask for progress reports by the

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administration to ensure that corrections have been made.

ISBA recognizes the importance of professional development for school board members to optimize your fiscal stewardship efforts. In addition to the resource guide and the annual School Budgeting and Finance Seminar, ISBA has partnered with faculty at the Indiana University Bloomington School of Education to create a School Finance for School Board Members 'Micro-Credentialing' Program. This program was designed to strengthen the capacity of school board members in school finance and develop a set of credentials that signal to others your preparedness and capabilities. Information on both this program and the resources can be found on the ISBA website at www.isba-ind.org.

LOCAL RESPONSE – THE IMPORTANCE OF TELLING YOUR STORY

As we prepare for the important conversation on school corporation efficiencies, you need to "know your numbers" and your school corporation's finances to "tell your story." Some key questions that you may want to consider and incorporate into your story narrative are:

- What is the ADM count and trend projections of your school corporation?
- What are your fund balances?
- What is the school corporation spending a majority of the Operations Fund on?
- What are the tax rates for the Operations Fund and Debt Service Fund?
- What is the property tax revenue per student in these funds?
- What is the five-year trend for these numbers when adjusting for inflation?
- Are the levy dollars in these funds increasing or decreasing?
- If decreasing, how is the school corporation adjusting or cutting expenses to offset the revenue losses?
- How much is the school corporation transferring from the Education Fund to the Operations Fund?
- Are you collaborating with county and municipal government leaders to ensure they are mindful of your school corporation's financial story?

If you do not know the answers to these questions, you may want to consider asking for a work session with your administration to seek and discuss this information. Once you are prepared to fulfill your fiduciary responsibilities it is important to be proactive in building broader community understanding of your school corporation's financial condition.

School Community Stakeholder Engagement

The stakeholders in your school community can play important roles as advocates and champions in telling your financial story, too. The quality of schools impacts property values and the quality of life they experience in your community. Your school corporation's strategic plan should involve community stakeholders and reflect their vision and values. The public should understand that most of your Education Fund budget is spent on people. Schools at their core are human-service organizations. When cuts are made, your board is not just trimming "line items" in the budget, you are likely eliminating staff. Reductions in force also precipitate reductions in programs and services. Make sure your community is aware of the changes and the overarching fiscal challenges. Many school corporations are recognizing the importance of building trust by engaging stakeholders through social media and newsletter updates, holding public forums, providing website-based budget and finance transparency portals, and cultivating leadership programs that include segments on school budgeting matters.

OUR COLLECTIVE READINESS AND RESPONSE TO PROTECT PUBLIC EDUCATION

I hope this column inspires you to strengthen your collaboration with fellow board members and district leaders, as you continue to guide your corporation toward sound, sustainable fiscal management. ISBA is ready to assist you in fulfilling your financial oversight responsibilities. Please reach out to me at tspradlin@isba-ind.org if there are any additional resources or professional development opportunities that we can provide to better support you. Let's stand united to do all that we can to provide an exemplary education for our 1 million students in our public schools.