



Lower Enrollment, Higher Budgets: How Elected Officials Can Help

Arizona's school districts have amassed over \$8B in reserves, representing about 60% of annual budgets.

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Abstract

Arizona school districts collectively hold more than \$8.3 billion in ending fund balances and cash reserves, even as traditional school district enrollment continues to decline. Elected school board members serve as fiduciaries of public resources rather than owners of those funds. This paper argues that the combination of substantial accumulated reserves and sustained enrollment decline imposes a heightened duty on boards to exercise prudent, transparent, and efficient stewardship; distinguishing between necessary reserves and excess accumulation, and clearly communicating plans to redirect resources toward current students or return them to taxpayers when justified. Legislators can assist school boards through good policy that will clear the way for these adjustments to take place.

Introduction

Arizona school districts collectively hold more than \$8.3 billion in ending fund balances and cash reserves, according to the Arizona Department of Education's 2025 Vol 2 (released January 2026) Annual Report of the Arizona Superintendent of Public Instruction. At the same time, enrollment in traditional district schools continues to fall amid declining birth rates and families choosing to exercise more educational options. Elected school board members and district staff, including superintendents, are not the owners of these public funds. Their job is to manage taxpayer resources prudently, not simply to spend what arrives or stockpile large surpluses without clear justification.

This combination of substantial reserves and declining enrollment creates a straightforward obligation: boards must distinguish between necessary savings and excess accumulation, explain their plans clearly to the public, and redirect resources toward students or return them to taxpayers when it makes sense.

The Current Reality

Declining enrollment means many districts are receiving relatively steady or even robust per-pupil funding while serving fewer students. Fixed costs do not shrink at the same rate, and recent years of strong state funding plus one-time federal money have left many districts with large, accumulated balances.

Not all of this money is freely available or easily accessible, of course. Significant portions sit in capital funds, restricted grants, or debt service accounts. General Fund reserves also serve legitimate purposes — managing cash flow during state aid deferrals, preparing for economic uncertainty, or funding board-approved future needs. However, when flexible reserves grow too large without transparent, publicly discussed plans — especially in districts with sustained enrollment decline — questions of efficiency and opportunity cost become unavoidable.

Core Responsibilities of Elected Boards

School board members hold a fiduciary duty to taxpayers and students. That duty includes several clear obligations:

- **Prudence, not hoarding.** Boards should maintain reserves sufficient for real contingencies and cash-flow needs, not build structural surpluses that hide inefficiencies or delay necessary adjustments. Declining enrollment creates a natural window to right-size operations through attrition, shared services, or consolidation where it makes educational sense — before costs become unsustainable for the students who remain.
- **Transparency as a baseline.** Taxpayers and parents have a right to know what reserves exist, why they exist, and when and how they will be used. Vague reporting or boilerplate explanations erode trust and invite legitimate criticism that money is being stockpiled rather than put to work for students.
- **Efficiency and prioritization.** Resources should flow first to classroom instruction, targeted support for students, and genuine innovation — not to preserving staffing levels, programs, or facilities sized for higher enrollment from years past. Boards should regularly test whether current spending patterns still make sense.
- **Respect for taxpayers and future students.** Large accumulated balances represent money that could have supported current students or reduced the burden on taxpayers. Wise stewardship of funds weighs both.
- **Alignment with mission in a competitive environment.** In an era of expanding school choice, public districts earn legitimacy through results and responsible management. Poor stewardship weakens public education's standing with families who now have real alternatives.

Practical Challenges

Boards face real pressures. Political incentives often reward spending or maintaining large buffers rather than returning funds. Restricted dollars cannot be freely moved. Enrollment declines are uneven across districts and grade levels. Sudden large drawdowns can disrupt services or affect credit ratings. State funding formulas add further complexity.

These realities argue against one-size-fits-all statewide mandates. They do, however, strengthen the case for stronger transparency requirements and clearer expectations that boards will actively manage reserves rather than simply accumulate them.

Recommended Practices

Boards that want to demonstrate responsible stewardship should take these steps:

- Adopt and publicly review formal reserve policies that specifically address enrollment decline scenarios and set criteria for when excess balances should be redirected or returned.
- Publish clear, detailed statements explaining how reserves will be used, with timelines and connections to student needs.
- Conduct regular budgeting exercises that model multiple enrollment scenarios rather than assuming past patterns will continue.
- Hold substantive public discussions — not just required hearings — when flexible reserves are large and enrollment trends raise legitimate questions about redirection or relief.
- Explore voluntary efficiency measures and shared services that reduce costs without harming educational quality.

At the state level, policymakers can support better stewardship by improving public dashboards on district reserves, providing model policies, and creating safe-harbor flexibility for boards that demonstrate proactive, transparent management.

The Bottom Line

Large reserves alongside declining enrollment are not inherently a scandal. They often reflect timing, legal restrictions, and reasonable planning. They do, however, place a heightened responsibility on elected officials to show wisdom — to separate necessary reserves from excess accumulation, to communicate plans plainly, and to create clear paths for redirecting money toward students or returning it to taxpayers when justified.

Fulfilling this duty strengthens public trust, supports sustainable district operations, and fits within Arizona's broader commitment to educational freedom. Families now have meaningful choices. Districts that manage resources honestly and efficiently will be better positioned to earn and keep the confidence of the families they serve.

Source: Arizona Department of Education. (2025). *2025 School Finance Report (SAFR V2)*. <https://www.azed.gov/sites/default/files/2026/01/2025%20SAFR%20V2%20FINAL.pdf>