

# **Black Education Strategy** **Roundtable**

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## **An Overview of the** **School Budgeting Process** **and the** **Impact on Academic Programs**

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## EXECUTIVE SUMMARY

The Washington State Constitution establishes the education of all children as the paramount duty of the state. It requires the state to make ample provision for a uniform system of public schools. These constitutional mandates are the foundation of court decisions that make Washington's school funding system unique. To carry out its constitutional responsibility, the state dedicates almost half of all state General Fund resources to support of the public schools which ranks Washington state schools among the highest in the nation in the percent of school district revenue provided from state sources.

Washington state is a leader in developing student learning standards and assessments to measure student performance. Beginning in 1992, Washington embarked on an ambitious program of education reform with the goal of improving student achievement for all students. The Legislature and the citizens of Washington have shown continued support for education reform goals and programs.

Federal education reform also impacts Washington state. The main federal legislation, Every Student Succeeds Act of 2015, represents sweeping changes. Its goal is to close achievement and opportunity gaps by giving all children the opportunity to obtain a high-quality education that will enable them to meet challenging state academic achievement standards. Washington State's EESA Consolidated Plan was approved by the Department of Education on (date) This plan has four focus areas; 1) Pursuing equity through closing gaps, 2) Continuous improvement for all schools, 3) Obtain and Retain Effective Educators, and 4) Flexibility on Use of Resources. A new Accountability Frame to measure student performance is being implemented starting in 2017-2018.

The public school governance system in the state of Washington consists of the Office of Superintendent of Public Instruction (OSPI), the State Board of Education (SBE), the Professional Educator Standards Board (PESB), and the Washington State School Directors' Association at the state level, educational service districts (ESDs) at the regional level, and school districts at the local level. These organizations establish state educational policies, administer, and supervise the public schools.

State funding is distributed to school districts through numerous formulas and grants to assure equitable funding that recognizes variable costs of districts and the special needs of disadvantaged students. State funding is supplemented with federal and local funding. Local levy funding is limited by the state's levy lid law. However, the state also partially equalizes local levy funding by providing local effort assistance to property poor school districts.

The financial management of schools rests with locally elected school boards in the state's 295 school districts. The state, through OSPI, supervises school district budgeting, accounting, and financial reporting to provide consistent financial management and accountability. The State Auditor conducts regular examinations of school districts' finances to ensure sound accounting practices and compliance with state and federal fiscal policy.

School districts account for the day-to-day maintenance and operations of the district in their General Fund. Other funds are used to account for specialized activities. These include the Capital Projects Fund for the acquisition of land, equipment, and facilities; the Debt Service Fund for redemption of bonds and payment of interest; the Transportation Vehicle Fund for the acquisition and maintenance of student transportation equipment; the Associated Student Body Fund for student activities; and Trust Funds for donations dedicated for specific uses.

OSPI collects information from school districts on school personnel, salaries, student enrollments,

revenues, and expenditures (by program, activity, and object), which is compiled and analyzed for use by local, state, and federal policy makers and the public.

## 1) Who is Responsible for Financial Management of Washington Public Schools?

The locally elected school district board of directors is ultimately responsible for the financial management of a school district. School boards hire a superintendent who oversees the day-to-day management of the school district.

School districts operate within the constraints of:

- Laws passed by the U.S. Congress
- U.S. Department of Education regulations implementing federal law
- Laws and budgets passed by the Washington State Legislature (RCW)
- OSPI and State Board of Education regulations implementing state and federal law (WAC)
- Professional Educator Standards Board (PESB)

The complexity of school finance arises from the number of programs funded and from the many reporting, accounting, and audit requirements of each program. In 2013-14, OSPI administered:

- 16 formula-driven state programs funded through the apportionment process
- 30 state grant programs
- 13 federal grant programs
  - 7 interagency grant programs
  - 3 private grant programs
  - Numerous programs funded under contracts between OSPI and school districts

School districts prepare an annual budget for public review and comment by July 10 of each school year. Budgets must be formally adopted by the school board before the beginning of the school year (September 1). Upon adoption, the budgets are submitted to OSPI.

School districts account for all revenues and expenditures using standard account codes defined in the *Accounting Manual for Public School Districts in the State of Washington*. All expenditures are identified by program, activity, and object. The annual financial reports are submitted to OSPI.

The Washington State Auditor examines school districts' operations and financial records for compliance with applicable state and federal requirements.

Nine regional Educational Service Districts (ESDs) help OSPI implement state and federal policies and collect information from school districts. ESDs also assist school districts by providing cooperative services that are more efficiently performed regionally. ESD programs and cooperatives allow districts to eliminate duplication of services, realize significant savings, and receive special program funding that might otherwise be unavailable to them.

Source: OSPI, *Organization and Financing of Washington Public Schools*, November 2015.

**School Board members must achieve/acquire the following competencies to properly execute their fiduciary responsibilities:**

- 1) Recognize and understand the relationship of the budget to district goals or strategic plan.
- 2) Know the present and future financial commitments of the school district and the revenue sources available to it including bonds and state grants.
- 3) Understand the state's funding formulas and legal requirements for building and approving a budget.
- 4) Know how to monitor a budget and interpret district financial status reports.

## **The School Board's Role in the Budget Process**

The School Board is a governing body. **Its function is not to operate the school district, but to see that the district is run effectively.** Effective boards concentrate their time and energy on determining what the district should accomplish and developing policies to carry out these goals. They avoid day-to-day administrative questions except to ensure that the administration of the district is effective and efficient, and that it reflects the policies established by the board.

This is probably one of the most important, and most difficult, concepts for board members to accept and follow consistently.

Board Function in the Budget Process:

- 1) Policy Development
- 2) Planning
- 3) Budget Parameters and Assumptions
- 4) Budget Implementation and Oversight

## **Budget Skills for Board Members**

Today's economic climate requires increased accountability of both school administrators as well as school board members. Citizens expect to see improved student outcomes and more equitable and efficient use of resources. School board members need specific skills in the finance and budgeting processes and must be able to:

- Develop budget policies which describe how the financial resources of the district are raised, equitably allocated, managed, and controlled.
- Understand and analyze budgets, particularly in terms of the relationship between educational objectives and program expenditures.
- Build budgets based on district objectives and the anticipated costs of achievement.
- Identify program alternatives and their costs. There may be more than one way to accomplish a given objective.
- Appreciate the elements of cost-effectiveness (durability, usability, applicability, and sustainability), recognizing that the best alternative is not always the cheapest.
- Consider the budget as a plan that needs continuous review and revision.
- Evaluate and make changes based on student achievement.

## **Policy Development**

The budget process is part of an overall policy framework which guides and coordinates the various services and functions of the district. The budget serves a central role in that policy framework by allocating, on an annual basis, the available financial resources to the programs which have been established to achieve the district's overall policies.

Budget and Financial Policies should:

- Address the management of financial resources.
- Set financial goals.
- Establish financial priorities.
- Provide financial continuity between budget years.

Examples of Budget Policies:

- 1) The district budget shall be based on a 3-year to 5-year plan of goals and objectives to be implemented by schools and departments resulting in improved student learning and achievement.
- 2) The district should accept ongoing service obligations for new educational programs only when adequate funding is available.
- 3) The district shall maintain an unreserved fund balance equal to one month's average expenditures of 8.3%.
- 4) Allowable indirect costs will be charged to federal and state grants.

School district budgets must also comply with state law, WAC 392-123. Of particular importance is WAC 392-123-070, which states that school directors, officers, or employees who knowingly or negligently overspend budget appropriations shall be liable for damages and may be forced to resign their positions.

## **Planning**

School boards should develop long-range financial plans including timetables for implementation. These long-range plans should be for at least five years.

Long-range Plans should include:

- Tentative operating budgets needed to finance planned educational programs.
- Methods of financing building needs to accommodate projected enrollment growth. Such planning should include possible bond sales, availability of state matching grants, alternative school years, etc.
- Projections of assessed valuations to determine the impact of property tax levies on district patrons. Projections of other revenue sources.

## **Budget Planning Assumptions**

When preparing a district's annual budget, certain items should be considered:

- 1) Educational program and district goals/mission statement.
- 2) Enrollment projections for the district, buildings, and courses.
- 3) Staffing levels for classroom, support, and administrative staff.
- 4) Class size at varying grade levels.
- 5) Financial impact of salary negotiations including base salaries, supplemental salaries, staff in-service, leaves and vacations, sick leave buy-outs and employee benefits.
- 6) Allowance for inflation.
- 7) Equity in spending among schools of similar grade patterns including school supplies and instructional materials.
- 8) Equipment replacement schedules and needs.
- 9) Transportation - mandatory and optional.
- 10) Operational allocations including maintenance, custodial, administrative offices, food services, and categorical programs.
- 11) Fund balance level.
- 12) Evaluation of projected revenues (building rental, activities fees, grants, property taxes, state apportionment, etc.).
- 13) Levels of extracurricular activities.

# **Budget Calendar**

## F-195 School District Budget

**STATUTORY CITATION:** RCW 28A.505.040 through 28A.505.080, WAC 392-123-054.

**PURPOSE:** This section provides the schedule for preparation, adoption, review, and filing of the F-195 school district budget.

RCW 28A.505.040 through 28A.505.080 (WAC 392-123-054) specifies the time schedule for preparation, adoption, review, and filing of budgets. A summary of the time schedule is displayed below. (NOTE: If a due date falls on a weekend or holiday, the due date becomes the next working day.)

<b><u>Final Action Date</u></b>	<b><u>First Class Districts</u></b>	<b><u>Second Class Districts</u></b>
July 10	Final date to prepare budget.  Final date to have copies of budget available to public.  Final date to forward budget to ESD for review and comment.	Final date to prepare budget.  Final date to have copies of budget available to public.  Final date to forward budget to ESD for review and comment.
August 1		Final date for adoption of budget.
August 3		Final date to forward adopted budget to ESD for review, alteration, and approval.
August 31	Final date for adoption of budget.	Final date for budget review committee to approve budgets.
September 3	Final date for filing budget with ESD.	
September 10	Last date for ESD to file with OSPI.	Final date for OSPI to return a copy of the approved budget to the local school district.

Effective Date 9/1/97

# **Components of a Successful School District Budget**

- Establishing fiscal policies to clarify board expectations.
- Establishing budget priorities based on the district's strategic plan or long-range goals.
- Involving administrators in budget preparation 6 to 12 months before budget adoption.
- Involving the community throughout the budget process.
- Preparing a "popular" budget in a format that facilitates understanding of the educational, revenue, and expenditure plans, and how they relate to previous and future budget plans.
- Using historical information to develop projections for long-range planning.
- Determining and monitoring indicators of financial difficulty.
- Compiling and reviewing financial reports.
- Making interim adjustments to minor budget difficulties. Budget transfers may be made at any time as long as the total approved expenditure amount is not increased. The level of control should be determined by the board.

## **Budget Implementation & Oversight**

After the budget has been adopted, the board takes on an oversight responsibility. The board monitors spending to ensure that expenditures are within the intent of the authorizations and for the goals previously established.

### **What Does Proper Monitoring Require?**

- 1) Monthly review of financial reports - including budget status and balance sheet reports.
- 2) An understanding of the district's ongoing financial status.
- 3) Keeping an eye on school activity, athletic and cafeteria accounts.
- 4) Being aware of budget transfers.
- 5) Being alert to the year-end condition of the budget.

### **Asking the Right Questions**

To adequately monitor the budget, what are some questions board members should ask?

- 1) How does actual enrollment compare to the budgeted amount?
- 2) How does actual staffing compare to the budgeted amount?
- 3) How does the actual beginning fund balance compare to the budgeted amount?
- 4) Are year-to-date revenues reasonable?
- 5) Are year-to-date expenditures reasonable?
- 6) Are revenue and expenditure trends consistent with historical patterns?
- 7) Is the ending fund balance adequate?
- 8) Did we budget sufficient amounts for individual programs?

## **Indicators of Financial Difficulty**

As you review your district's financial reports, you should be alert to indicators of financial difficulty. The board's role is to ask administrators for explanations of questionable items.

- 1) Is your district continually engaged in short-term borrowing? E.G.: Use of revenue anticipation notes, apportionment advances, interest-bearing warrants, LGO's?
- 2) Has your district experienced recent levy losses?
- 3) Is your district at its legal debt limit? What is the district's debt margin?
- 4) Has there been a decrease in year-end fund balance levels over the past few years?
- 5) Have expenditures exceeded revenues over the past few years?
- 6) Has the district been delinquent in paying: Debt instruments? Obligations to other school districts? Salaries? Payroll taxes and deductions?
- 7) Is the district involved in pending litigation that could adversely affect its financial condition?
- 8) Is enrollment declining?
- 9) Has the number of schools remained the same even though enrollment has declined?
- 10) Have cash balances levels decreased over the past few years?
- 11) Has the student/staff ratio decreased as enrollment declined? Smaller class sizes are preferable from an educational viewpoint, however, from the financial perspective they are more costly.
- 12) Has facility utilization dropped below 70% at any school site?
- 13) Has state ranking of cost-per-student increased?
- 14) Is the property tax collection rate 95% or less?
- 15) Have payments to vendors been delayed to solve cash flow shortages and minimize borrowing?
- 16) Has the number of building permits issued with your district declined?
- 17) Has there been an increase in the number of accumulated vacation and sick leave days per employee?
- 18) Has there been an increase in accounts payable at year end?
- 19) Has there been an increase in the ratio of bonded indebtedness to total assessed valuation?
- 20) Has there been a decrease in revenues from local sources?
- 21) Has there been an increase in fringe benefits as a percentage of total salary costs?

# **Overview of Revenue Sources**

A school district's revenue comes primarily from three sources:

## **1) State Revenues**

State revenues are allocated to each school district based primarily on enrollment and average experience and education of the teaching staff. This is the largest source of revenues for the general operation and maintenance of the district. In addition to apportionment for basic education, districts receive state revenues for specific purposes such as special education, block grants, property tax levy equalization, and school construction.

Public Schools 2017-19 Operating Budget & 2018 Supplemental:	\$24,787,236,000.00
Capital Budget 2018:	\$ 1,079,433,000.00

## **2) Federal Revenues**

Federal grants provide another fairly large source of revenue for many districts. Districts receive federal revenues for the school lunch program, Headstart, Chapter I remedial education programs, STEM programs, special education programs, CTE programs, youth programs, school improvement programs, early childhood education programs, technology programs, etc. Districts that have federal installations receive federal revenues to mitigate the impact of reduced property taxes and increased educational programs created by Indian reservations and military bases.

The 2017-18 Budget for Federal Spending for Education is the largest number in its history. \$70.9 billion representing a broad rejection of the most-austere budget proposal present by Donald Trump and Betsy DeVos. This is a \$2.6 billion increase for fiscal year 2018.

## **3) Local Revenues**

Local revenues include property tax levies, non-high payments, school lunch charges, investment interest, etc. School districts tax levies are called "special levies" and require voter approval. School districts may levy taxes for general maintenance and operation purposes (M&O levies), capital needs, and to redeem bond principal and interest.

## Workload/Staffing/Fina

	<u>SY2011-12</u>	<u>SY2012-13</u>	<u>SY2013-14</u>	<u>SY2014-15</u>	<u>SY2015-16</u>	<b>District Budgeted</b> <u>SY2016-17</u>
Total FTE Enrollment (1)	997,473	1,002,074	1,019,752	1,031,554	1,055,851	1,081,541
Special Education Percentage (2)	11.95	12.07	12.02	12.02	11.96	11.85
Free and Reduced Lunch Percentage (9)	45.55	45.67	45.19	46.48	45.70	44.89
Certificated Administrative Staff (3)	3,884	3,971	4,100	4,327	4,553	4,792
Certificated Instructional Staff (3)	60,197	60,860	62,336	64,285	66,344	68,289
Classified Staff (3)	36,199	36,450	37,273	38,597	39,844	41,336
Total Staff	100,280	101,280	103,710	107,208	110,741	114,417

<u>FTE Enrollment per Staff</u>						
Certificated Administrative Staff (3)	256.8	252.4	248.7	238.4	231.9	225.7
Certificated Instructional Staff (3)	16.6	16.5	16.4	16.0	15.9	15.8
Total Certificated Staff (3)	15.6	15.5	15.3	15.0	14.9	14.8
Classified Staff (3)	27.6	27.5	27.4	26.7	26.5	26.2
Total Staff	9.6	9.5	9.5	9.5	9.7	9.7
<u>Staff per Thousand FTE Enrollment</u>						
Certificated Administrative Staff	3.9	4.0	4.0	4.2	4.3	4.4
Certificated Instructional Staff	60.3	60.7	61.1	62.3	62.8	63.1
Total Certificated Staff (3)	64.2	64.7	65.1	66.5	67.1	67.6
Classified Staff	36.3	36.4	36.6	37.4	37.7	38.2
Total Staff	100.5	101.0	101.7	103.9	104.9	105.8

Source: OSPI F195/F196 School Apportionment and Financial Services (SAFS) reports.