

FUNDAMENTALS OF SCHOOL FINANCE

Why are public schools public? Quite simply, because they are paid for by public funds. Money to support public education in Massachusetts comes from taxes paid annually by the residents of every community across the state.

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district's school funds. It is your responsibility to ensure that these public monies are spent wisely, efficiently and equitably to meet the educational goals that have been established for your district.

FINANCING YOUR SCHOOLS

Public schools in Massachusetts have three major funding sources: local, state and federal dollars, with the lion's share coming from state and local sources. In 1995-96, funding percentages in Massachusetts were: local (58.2%), state (36.1%), and federal (5.6%).

Although the federal role in education is small compared to state and local contributions, it funds vital programs such as Title I and Head Start that states would otherwise be unable to provide. With the growing call, however, for higher level student skills, education concerns are showing up with increasing frequency on the federal radar screen. In his recent State of the Union message, the President proposed

to spend an additional \$90 million on education over the next five years and reaffirmed his commitment to invest in programs that will increase student achievement.

At the state and local level, school committees have no taxing authority nor is there any tax source specifically earmarked for public education. With the passage of Proposition 2½ in 1980, a cap was placed on the amount that local property taxes (schools' primary source of local funding) can be increased. The impact of this legislation on schools was devastating: for more than a decade, programs were decimated and class sizes swelled as local officials struggled to balance their municipal and educational priorities. Although the cap is still in place, as a result of the 1993 Education Reform Act, municipalities are now required to appropriate an amount not less than the minimum required local contribution sum established for each school district by the Department of Education (see *Massachusetts General Laws*, Chapter 70, section 6). Local governing bodies are responsible for appropriating these funds to the district's school committee as well as for final approval of the annual school budget.

The school committee is responsible for developing policies that reflect the district's educational goals and operating needs. When school budget decisions are made, they should be guided by these policies. For example, a policy to provide remedial reading programs at the elementary school level makes it necessary to budget for professional staff, instructional materials, etc.

It is also the responsibility of the school committee to develop policies regarding financial procedures and reporting. These policies should clearly establish the district's financial control and oversight system, specify the format and frequency of financial reports, outline budget procedures, and designate check-signing authority. Of course, all policies should be reviewed for compliance with state and federal regulations.

THE SCHOOL BUDGET

The school district budget is more than a dollars-and-cents chart of revenues and expenses. It is a vital document that expresses your committee's goals and priorities for the coming year. It can also be viewed as an important decision-making mechanism; as a long-range planning tool; as an accountability covenant with the community that shows how the district's mission and goals are being translated into concrete educational programs and services; as a mechanism for control that indicates that school leaders and the administration have a tight rein on school spending; as a statement of philosophy that declares—through its choice of programs and services—its values to the community; and as a political document that represents a compromise of many views and goals. How your committee views its budget will affect, to some degree, the budgeting role it plays.

Most school committee members agree that they don't have to know every little detail of the budget, but they have to know their own priorities—and they have to know the district's

Where does all the money go?

How much of your budget goes for instruction? How much for maintenance and operations? And is your spending out of line with what other districts spend? Each year, Educational Research Service, Inc. (ERS), collects budget data from a representative sample of public school districts. The following line-by-line average budget allocations for the 1994-95 school year are from the ERS Local School Budget Profile Study, 1994-95. Compare your budget, line by line, with these national averages.








budgeting process.

Keep in mind that preparing a school budget is not a precise process, nor is it like the business/industry budget model. Your school district's goals are very different from those of a business or industry, and how you budget your education dollars will go a long way in determining the district's success in meeting these goals. And unlike a business, not all budget decisions are within your committee's power to determine. The state and federal government, as well as the Massachusetts Department of Education, have specific requirements, procedures, schedules and reporting regulations that will impact many of your annual budget decisions.

Your budget may be subject to other constraints as well. What is the mood of the taxpayers on expenditures? If your budget depends on an override or referendum, can you count on the community's support? Are there any local factors that municipal officials may be more inclined to finance? And what will be the impact of collective bargaining on the schools' budget? You may not know this until late in the budget year—and contract salaries usually represent the largest piece of the budget.

School budgets are usually developed in three distinct phases. During the initial phase, a preliminary budget plan is developed which reaffirms the district's goals and briefly explains how the budget supports those goals. It should also include a projection of revenues and expenditures, to include information the central office has received from

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Where the money goes	per-pupil expenditure	percentage of the total
 All instruction	\$3,980	69.4%
Classroom instruction	2,892	50.7
Special education	545	9.3
Books and materials	247	4.3
Improvement of instruction	92	1.6
 Maintenance and operations (includes staff, equipment, and supplies for care, upkeep, and operation of buildings, grounds, equipment, and security)	\$452	7.8%
 Student services	\$433	7.2%
Transportation	258	4.4
Health and attendance	92	1.5
Student activities	61	1.0
Food service	13	0.2
School site leadership (includes principals, assistant principals, secretarial/clerical services in principals' offices, and related equipment and supplies)	\$308	5.5%
 Environmental conditioning (includes fuel for heating and cooling and all utilities except telephone)	\$147	2.6%
 Central and business services (includes fuel for heating and cooling and all utilities except telephone)	\$147	2.6%
 Executive administration (includes superintendent; deputy, assistant, and area superintendents; employee relations/negotiations; state/federal relations; and related central office services)	\$99	1.7%
 School committee (includes committee member salaries and expenses; election and legal services; census; and tax assessment/collection)	\$33	0.6%
Other current expenditures (includes professional liability and fire insurance and short-term interest)	\$170	2.7%
TOTAL CURRENT EXPENDITURES	\$6,360	111%

In addition, ERS says, school districts budget another \$310 for capital outlay (including new and replacement buildings and vehicles); \$161 for debt retirement; and \$124 for interest on long-term debts.

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individual schools.

During the second stage, the school committee—together with the superintendent—evaluates the proposed budget and modifies it as necessary after the required public hearing.

In the third stage, the budget, having been approved by the school committee, is presented to the local governing authority for final approval. While the local city council or town meeting cannot fund, refuse or alter indi-

vidual line items of the school budget, they may add or subtract to the budget's bottom line.

As you and your colleagues set about the budget development and approval process, you will want to have a working knowledge of:

- ◆ the components of the budget—what percentages are derived from where.
- ◆ The procedures for setting the budget—who does what and when.
- ◆ The relationship between priority areas and expenditures.

The school budget, as a docu-

ment, should explain the district's financial situation in clear, simple terms. The average citizen is more interested in the overall financial picture than in analyzing columns of figures. It is important that the community understands how their education dollars are being spent; and more importantly, how these expenditures relate to the district's educational goals and objectives. At a minimum, your budget should relate the following:

- ◆ The amount appropriated for each account last year.
- ◆ The amount actually expended

Vital statistics for budget decisions

In making budget decisions, you need statistics about the people the schools serve; about the resources of the district to support education; about the staff and facilities that make schooling possible; and about district levels of operation today, so that you will know what they should be—and what they have to be—in the years ahead. Here are the types of statistics to ask for.

PEOPLE THE SCHOOLS SERVE

- ◆ Total population in district
- ◆ Characteristics of the population
 - by age group
 - by ethnic and racial background
 - by type of family (with children, without children, single-parent families)
 - by income
 - number of handicapped students and kinds of handicaps
- ◆ Population trends in the district
 - increasing
 - decreasing
 - change in socioeconomic backgrounds
 - change in ethnic character
- ◆ School population
 - total number of students enrolled
 - by elementary grades
 - by secondary grades
- ◆ Trends in private school enrollment
- ◆ Minority student enrollment
 - by schools
 - by grades

RESOURCES OF THE DISTRICT

- ◆ Assessed valuation of taxable property
- ◆ Total revenue from local services
- ◆ Total state aid
- ◆ Federal aid
- ◆ Revenue projections for 3–5 years
- ◆ Projected economic changes

STAFF AND FACILITIES

- ◆ Total number of teachers
 - by age
 - by tenure/nontenure
 - by salary distribution
 - by number of years experience
 - Administrative & supervisory staffs
 - by age/tenure/salary
 - by function
- ◆ Total number of school buildings
 - by age
 - physical condition
 - scheduled closings, by years
 - scheduled major repairs and renovations; by years
- ◆ Inventories of equipment

LEVELS OF OPERATION

- ◆ Student-teacher ratios
 - by elementary grades
 - by secondary grades
- ◆ Student-staff ratios
 - by elementary grades
 - by secondary grades
- ◆ Class size
 - by elementary grades
 - by secondary grades
- ◆ Core current expenditures
- ◆ Expenditure per student in ADA (Average Daily Attendance)
 - by elementary grades
 - by secondary grades
- ◆ Expenditure per student
 - by operating expense
 - for capital outlay
 - for interest on school debt

for each account.

- ◆ The amount appropriated for each account in the current year.
- ◆ The amount requested for each account in the coming year.
- ◆ A statement of expected revenues and expenditures.

SETTING A CALENDAR

If your committee hasn't already done so, adopt a budget calendar. In Massachusetts, where the fiscal year begins on July 1, you will want the calendar to run from July 1 through the following June 30 and will include the following information:

- ◆ **Dates.** On which days will budget planning and preparation activities occur? When will reports and recommendations be due?
- ◆ **Outcomes.** What should happen on the dates specified?
- ◆ **Persons responsible.** Which members of the staff are responsible for which functions.

The committee should establish, together with the superintendent:

- ◆ When the administration will present summaries of staff/school council requests for budgetary items to the committee.
- ◆ When a tentative budget will be completed and presented to the committee.
- ◆ When the superintendent will make the first formal budget presentation to the committee.
- ◆ When public hearings will be held.
- ◆ When the budget will be presented to municipal officials.
- ◆ When the committee will hold final discussion of the budget and adopt it.

QUESTIONS TO ASK

Are you, as a school committee member, prepared to understand and approve the school budget and to explain budget decisions to

the taxpayers? While you need not concern yourself with day-to-day details of budget preparation, it's advisable to know as much about the budget itself as you can. Many committees have annual budget orientation sessions with the superintendent and business manager. These sessions can introduce new members to the technical aspects of the process and give everyone a chance to ask questions. Listed below are some budget-related issues you might want to consider:

- ◆ How does the budget reflect the education priorities set by the committee?
- ◆ How were revenue and expenditure estimates arrived at?
- ◆ Where does your district stand in the school system aging cycle? Will any of your schools need repair, renovation or replacement in the near future?

Your primary concern, of course, should be on whether the budget meets the district's educational goals for its students. This calls for the committee to become actively involved in setting priorities and developing an education plan and a facilities and materials plan. Throughout the process, your emphasis should be on budgeting for your vision and plans, not simply on how to allocate revenues for next year.

WHAT TO AVOID

Veteran school committee members warn against these major pitfalls in budget adoption:

- ◆ Avoiding the budget process until the budget document is all but completed.
- ◆ Failure to get sufficient public participation in both the early and later stages of budget preparation.
- ◆ Failure to ask for and receive

from the administration clear explanations of every major part of the budget.

- ◆ Inability to identify budget items that address the future.
- ◆ Failure to specify whether the committee is budgeting dollars or authorizing the acquisition of designated materials and services.
- ◆ Inadequate consultation with municipal officials.

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- ◆ Lack of policies that require procedures to control budget transfers, year-end transfers, year-end surpluses, and unanticipated revenue surplus or shortfall.
- ◆ Failure to provide for contingencies.

MONITORING THE BUDGET

Once the school budget has been adopted and appropriated, it is the responsibility of the school committee and superintendent to ensure that expenditures are used to achieve the goals that have been established. Proper monitoring requires:

- ◆ **Reviewing financial reports** regularly, preferably monthly. Most boards want to know four things: How much did we budget? How much have we spent? How much is left? And, if the answer to the last two questions is unexpected, what happened? Reports should not be limited to the operating budget.

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Funding fundamentals

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Look at enterprise accounts, school activity funds, athletic funds, and cafeteria accounts. Supporting documents should be clear and concise

◆ **Monitoring budget transfers.**

Budget transfers are a complex matter that merit close attention. School committee policies should describe the committee's intent on transfers, who is responsible for approving transfers, and when transfers should be made (monthly, quarterly). Be aware of a pronounced increase in budget transfer requests at the end of the year, as it could indicate incorrect projections.

◆ **Instituting a system of checks and balances.**

School committees should consider dividing duties among key financial staff members (e.g., superintendent, treasurer, accountant, business manager) to reduce the possibility of error, fraud or theft. To permit too much financial control by one individual may invite embarrassment to the district.

◆ **Being alert to the year-end condition of the budget.**

Since budgeting is a year-round task for school committees, what the committee does to the budget this year will affect next year's budget.

adequate record-keeping and accounting procedures:

◆ Does the district have an adequate system of internal accounting controls? An internal accounting control system ensures the proper use of funds by having built-in organizational checks on revenues and expenditures. Your committee may want to get the advice of an experienced accountant to determine whether suitable controls are in place.

◆ Are the district's accounts audited? Regular audits should be conducted by state personnel, certified public accountants, or other qualified accountants, and reviewed by the committee. It is recommended that audits be conducted regularly even though they are not required by law in Massachusetts.

* ◆ Is money allocated for a specific purpose actually spent for that purpose? If an expenditure is not included under the proper heading, it will be difficult to control spending or make valid compar-

isons with other districts.

◆ Have provisions been made for areas that require special attention in the matching of revenues and related expenditures? School committees generally serve as trustees of special funds, including bond issue funds, school lunch program funds and revenues from student activity funds. Many accountants advise that the balances, assets, and liabilities of these funds be kept separate from the rest of the school operations. This is particularly important when some of the revenues are raised by special taxation or contributions. ◆

SOURCES

Becoming a Better Board Member, National School Boards Association, 1996.

Budget Manual for Virginia School Boards, Virginia School Boards Association, 1996.

"Education Vital Signs," *American School Board Journal*, 1996

ACCOUNTING SYSTEM AND PROCEDURES

On paper, if not in practice, school committee members are responsible for seeing that their district—under the business administrator's direction—maintains adequate records and controls over state, federal, and local funds, as well as other school district finances. Accounting records and reports should reflect what is actually happening.

Following are some questions that may help you determine whether your district has

