

The National Association of Latino Elected and Appointed Officials Educational Fund

National Institute for Newly Elected Officials

November 17-20, 2016

Gaylord National Resort & Convention Center

National Harbor, MD

UNDERSTANDING EDUCATION FINANCING AND THE BUDGET MAKING PROCESS

Presenter

Dr. Richard A. Stedry

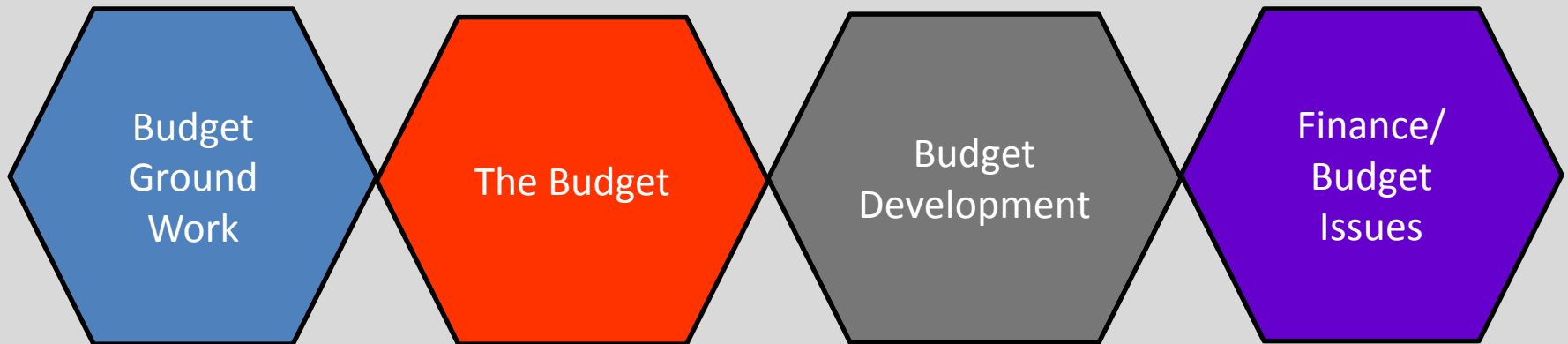
Educational Business Operations Consultant

Session Goal & Presentation Components

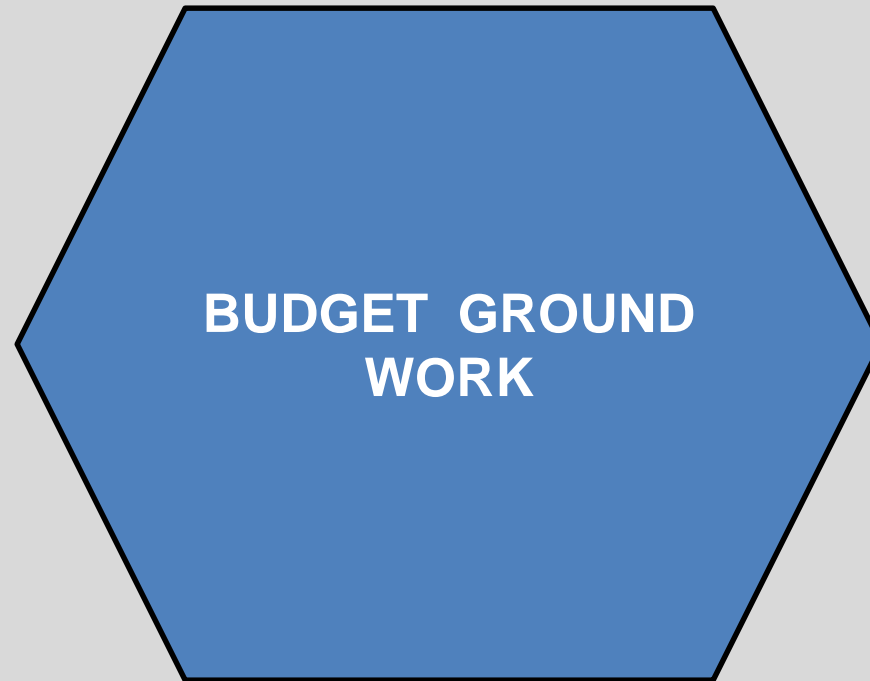
SESSION GOAL

Provide institute attendees with information to help them better understand their respective school district budgets and their involvement in the budget development process.

Presentation Components



NALEO Educational Fund
National Institute for Newly Elected Officials
November 19, 2016
Washington, DC



Budget Ground Work

- ♦ The school district budget looms as a mystery of intertwined and complicated figures to many school board members, school administrators and community.
- ♦ Yet the school budget is the single most important element in the operation of a school district. For everything that happens in a school district must pass through the school district's budget.
- ♦ The school district budget provides the structural shell within which a district's educational and support programs operate.

Budget Ground Work

Dr. Stedry's Ye Old Budget Axiom: The only difference between large and small school district budgets is the number of digits to the left of the decimal **and** the length of time it takes to calculate the numbers left of the decimal.

Dr. Stedry's Budget Reductions: Experience has taught me that every year a school district will have budget reductions because (a) they will have more new expenditures than new revenue and (b) state and/or federal orchestrated budget reductions.

Budget Ground Work

The School Budget - It's Not Hard To Understand But...

Understanding the School Budget is Made Difficult by:

- A. Acronyms and Educational Jargon
- B. Financial Language
- C. Pressure from bargaining groups
- D. Pressure from special interest groups
- E. Pressure from taxpayer groups
- F. Pressure from legislators

Budget Ground Work

The School Budget's *DaVinci* Code – Acronyms

LEA

SNS

SEA

IEP

LCFF

PASA

ESSA

MSOC

BANANA

Budget Ground Work

The School Budget's *DaVinci Code* – Terminology

Encumbrance

“Robin Hood” Theory

Encroachment

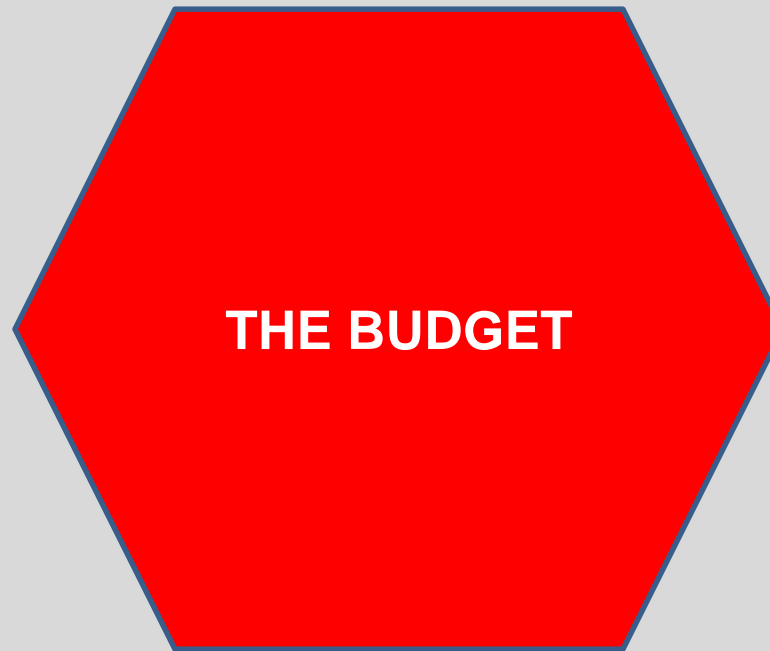
Unencumbered Balance

Least Restrictive Environment

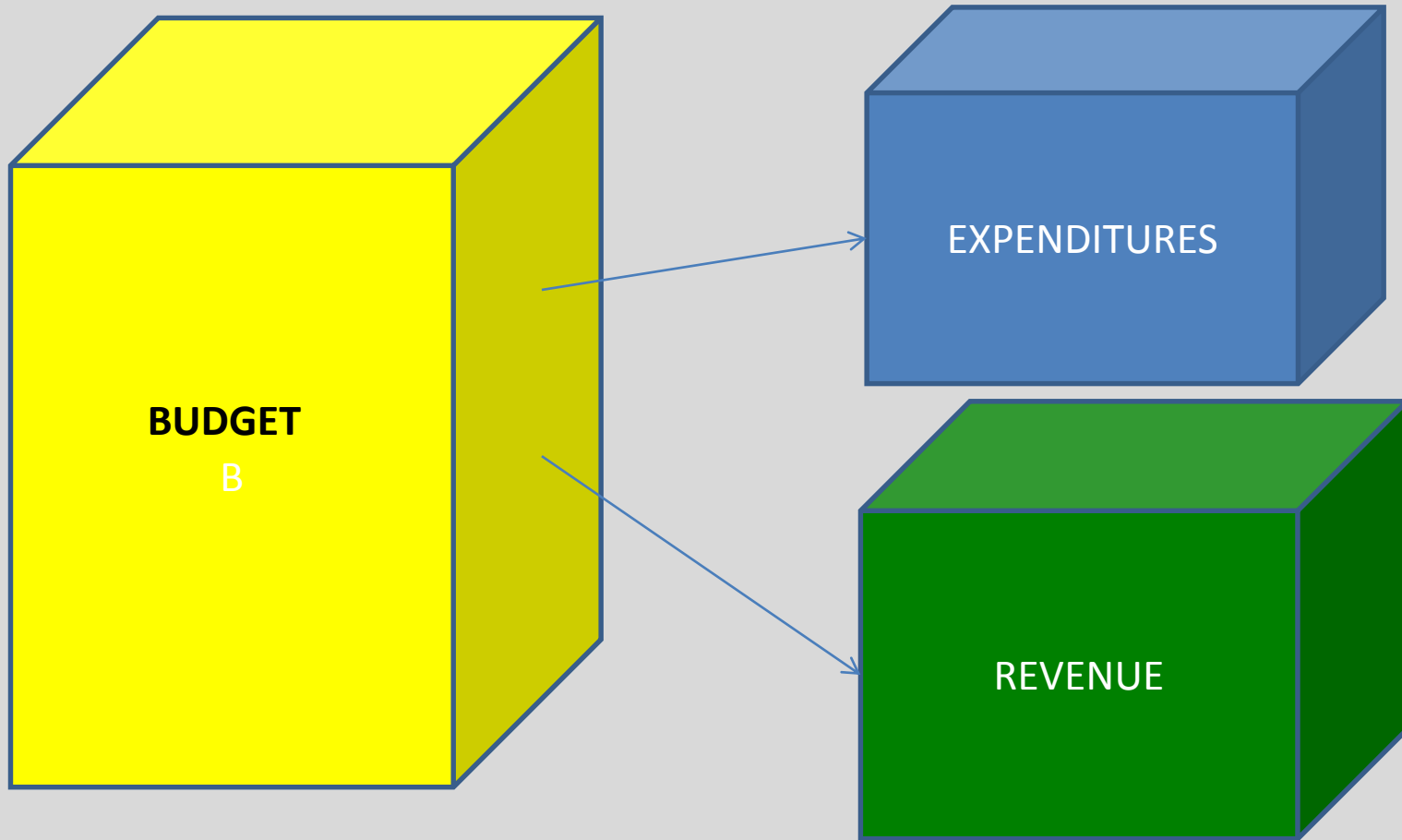
Unfunded Mandate

~~“Billy Goat” Theory~~

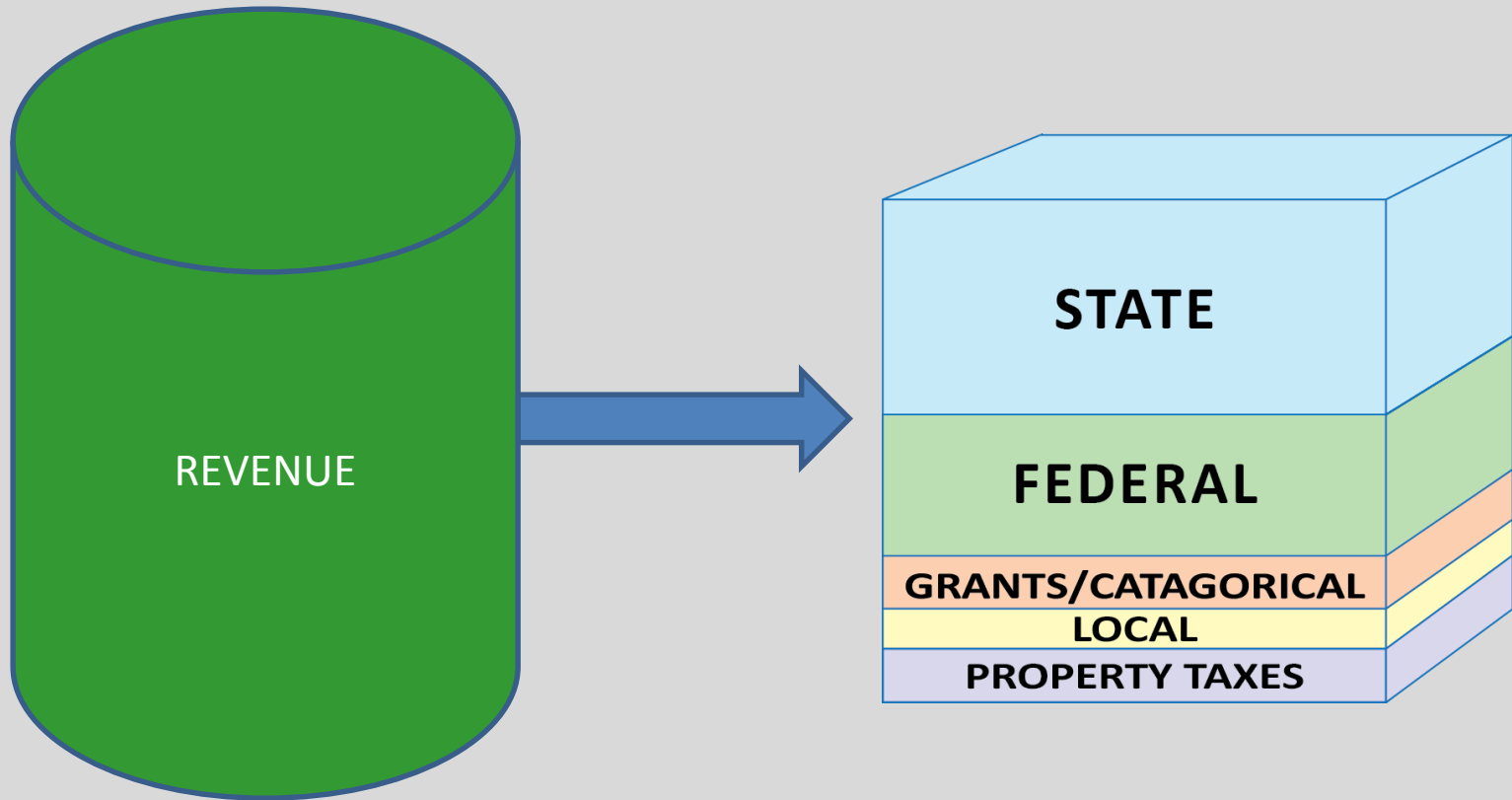
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The Budget



The Budget: Revenue



The Budget: Revenue - Federal

The first government grant was awarded to Columbus. Why you ask? Because:

- When he left on his trip, he didn't know where he was going –
- When he got to where he was going, he didn't know where he was –
- When he got back from his trip, he didn't know where he had been –
- His total trip was funded with a grant from the government.

The Budget: Revenue – Federal

- ↪ Every Student Succeeds Act (ESSA) Titles I, II, III
- ↪ PL 94-142 (Special Education)
- ↪ PL 81-874 (Federal Impact Aid)
- ↪ Forest Reserve Funds (Rental of Federal Lands)
- ↪ Carl Perkins (Vocational Grants)
- ↪ Department of Agriculture (School Food Services)
- ↪ Race To The Top (Competitive Improvement Grants)

Indirect Costs: A district's allowable percentage that it charges each Federal program for administration of their Federal program(s).

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

- ⊕ ESSA takes the pendulum of federal overreach and prescription in No Child Left Behind (NCLB) and returns autonomy and flexibility to the states and school districts.
- ⊕ With this flexibility comes **greater responsibilities** because states and school districts now have more explicit say in the structure and ultimate success of their accountability programs.
- ⊕ Gone are the (a) parents public school choice, (b) supplemental educational services, and (c) highly qualified teacher requirement.

The Budget: Revenue - Federal

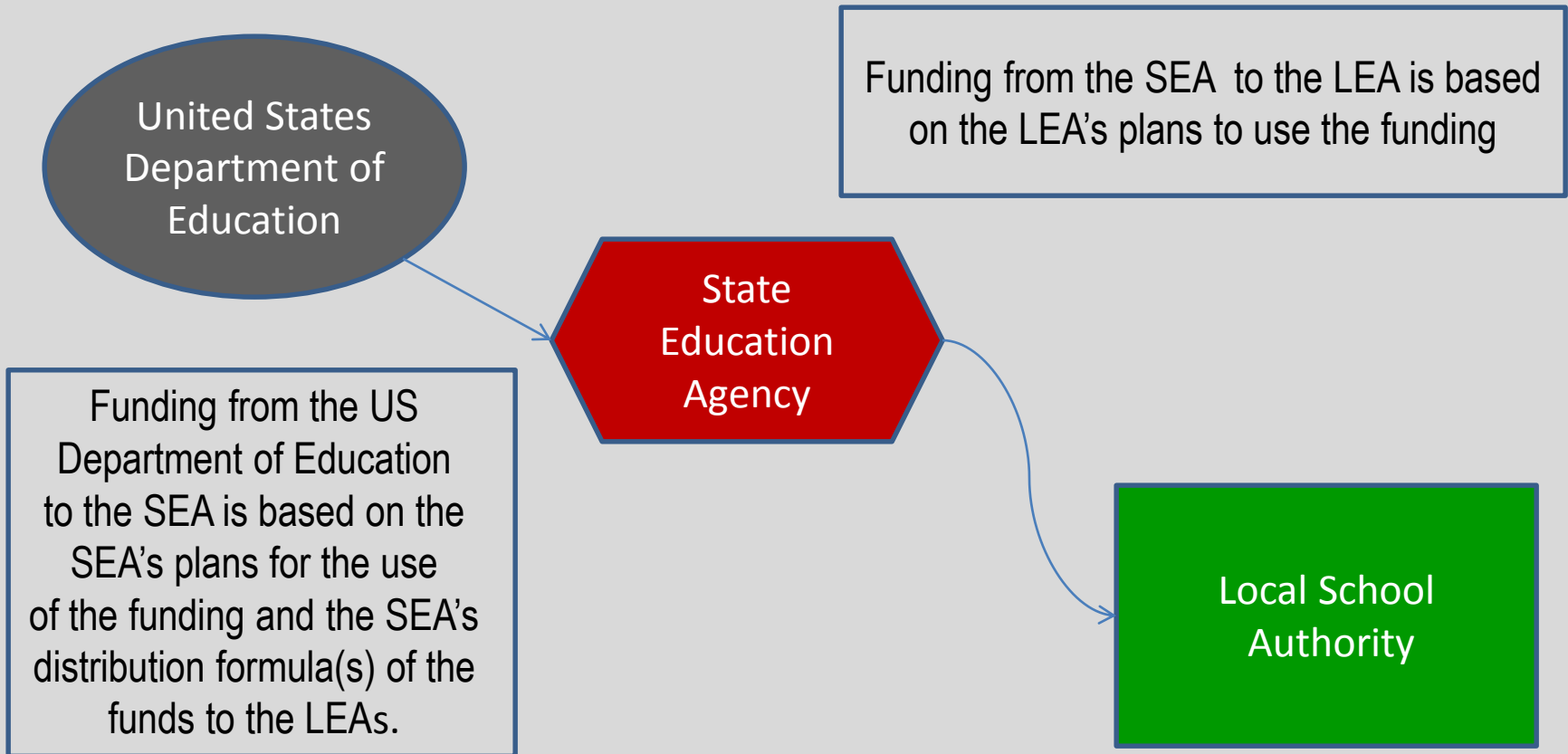
Every Student Succeeds Act (ESSA)

2015-2016: This was the last year that states and school district's had to submit data to the feds as required in NCLB; waivers issued by the feds expired July 31, 2016.

2016-2017: This year, hopefully, will serve as a "trial run" for all the pieces of the newly proposed state accountability program required by ESSA. *(If I was a betting person I wouldn't bet on it)*

2017-2018: "**Let the Stress Begin**" as ESSA goes into full implemented.

The Budget: Revenue - Federal



The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

Title I

Title I is one of the Federal government's largest commitments to K-12 education – \$15 billion (+/-) in Title I funding every year.

Since 1970, the Federal law has been clear that the Title I funds can only be used as a **supplemental** source of funding to support the academic needs of students in schools with a high concentration of poverty (high free/reduced meal percentages).

Title I funds **cannot** be used to replace or off-set state and local financing of education. This is the fiscal rule of “supplement not supplant” (SNS).

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

Title I

Enforcing the SNS rule has always been difficult, thus Congress updated the SNS requirement when they passed ESSA.

The new SNS requirement will look to the distribution of state and local funds to Title I schools to ensure that Title I schools receive all of the state and local funds it would receive if there were no Federal funds.

The Department of Education failed to get agreement on the rules regarding SNS. Thus, leaving the Department of Education to propose it's own rules. So now we have a

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

Title I

CONFUSED BUREAUCRATIC MESS

The Department of Education's new proposed rules regarding SNS directs how school districts must allocate state and local funds across to their Title I schools.

The Department of Education is proposing the following options:

- ⇒ a weighed student funding formula -
- ⇒ a formula that allocates funds based on average salaries -
- ⇒ an alternative developed by the state and approved by ED -
- ⇒ a methodology selected by the district that meets ED's reg. -

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA) Title I

Title I funding for schools over the *past years* was based on:

- ① The SEA's consolidated plan approved by the USDE –
- ② The school district's Title I accountability plan -
- ③ Schools with 40% - 75% free/reduced price meals –
- ④ Depending on the availability of Title I funds, school districts could provide Title I funding to schools above or below the 40% - 75% free/reduced price meal percentages including middle schools and/or high schools -

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

Title II

Title II funds are used to provide professional development to improve the knowledge and instructional practices of teachers and, in appropriate cases, paraprofessionals.

Title II funds may also be used for professional development for principals and superintendents.

Title II funds for professional development are available for 27 months.

School districts (LEAs) are required to submit their plan(s) for professional development, that are formulated from the district's needs assessment for professional development, to their SEA for funding.

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

Title II

Examples of allowable expenditures with Title II funds:

- Professional development for teachers
- Payment for substitutes
- Professional development supporting principals
- Supplies/materials used for professional development
- Salaries – this requires *Time and Effort* reporting

Contracting for professional development services:

- ☒ Why? (Costs?)
- ☒ Solo Source Procurement(?)
- ☒ Contract Language
- ☒ Follow Up

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA)

Title III

ELL (English Language Learners) new under ESSA and will be kept as a separate entity and funding within ESSA

ESSA's Title III funding will be increased to address the increasing numbers of English language learners

ESSA's Title III is designed to provide funding to states and school districts for ELL students to develop both English language proficiency and content proficiency in math and English

The Budget: Revenue - Federal

Every Student Succeeds Act (ESSA) Title III

ESSA requires English language proficiency for ELL to be integrated into the process by which all schools and districts are held accountable.

FUNDING PROCEDURES:

- (a) SEAs must complete an English Language assessment each year that qualifies students, who's first language at home is not English, as an ELL student –
- (b) Results of the annual assessment qualifies the SEA for ESSA ELL or Title III funding –
- (c) Funds received by the SEA sent to school districts for ELL students

ESSA requires the establishment of entrance and exit procedures for ELL students.

The Budget: Revenue - State

Basic Education Equalization Aid

State Sales Tax

Pre-School/Full Day Kindergarten

EIA: Education Improvement Act

Special Education

Transportation

Categorical Programs

Nutritional Services

Lottery and/or Marijuana Sales 

FORMULA MECHANISMS

Foundation Formulas

Enrollment: FTE, ADA

Equalization

COLA

Weighted Student Funding

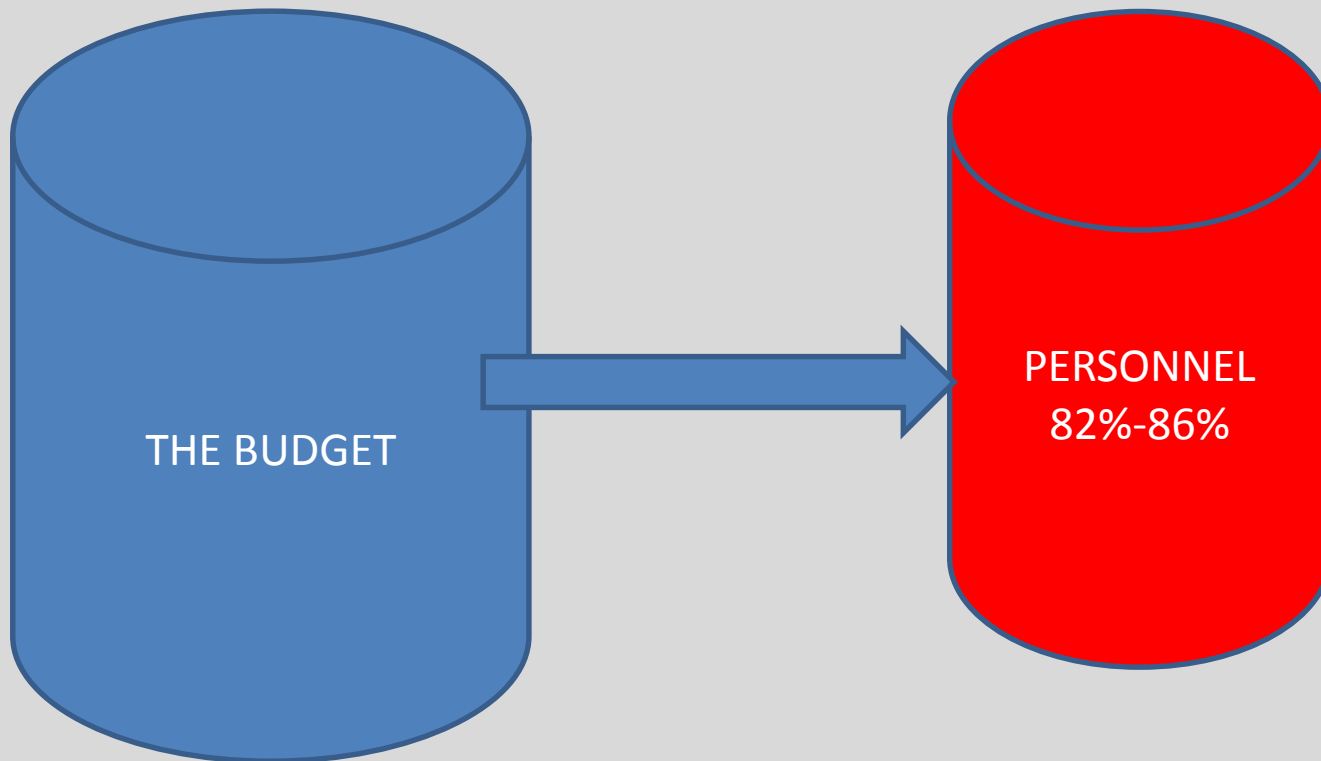
Prototypical School Model

????? – “Equity Funding”

The Budget: Revenue - Local

- ✓ Override Levy
- ✓ M&O Levy
- ✓ Property Tax
- ✓ School Impact Fees
- ✓ Facility Rental Fees
- ✓ Reimbursements/Refunds
- ✓ Food Service Sales
- ✓ Pay-to-Participate
- ✓ Tuition
- ✓ Traffic Fines
- ✓ Indirect Costs
- ✓ Investment Interest
- ✓ Donations
- ✓ Surplus Property
- ✓ Sales Tax

The Budget



The Budget: Personnel

Personnel - Salaries

Certificated Personnel
Classified Personnel
Administrators
Board of Education Members
Substitutes
Supplemental Salaries
Stipends
Classified Overtime
Extra Duties
Staff Development
Interns

Personnel - Costs

- I. How are salaries determined?
 - A. Salary Schedules
 1. District
 2. State
 3. Combination of 1 & 2
 - B. Salary Schedule Movement
 1. Step and Column
 - C. Position Contracts
- II. Statutory Benefits

The Budget: Personnel

Authorized Positions

- A. What are they?
- B. Why have them?
- C. Number Needed? – Enrollment: Projections vs. Actual
- D. Three kinds of “Authorized Positions”
 - 1) Filled and Funded
 - 2) Vacant and Funded
 - 3) Vacant and Not Funded

The Budget Personnel – Statutory Benefits

| <u>STATUTORY BENEFITS</u> | <u>Certificated</u> | Classified | |
|---------------------------|---------------------|---------------------|--------------------|
| | | <u>White Collar</u> | <u>Blue Collar</u> |
| Social Security (a) | 22.48% | 20.93% | 21.33% |
| Medicare (b) | | | |
| Retirement (c) | | | |
| Unemployment | | | |
| Worker Compensation (c) | | | |

(a) Not all states and/or employee groups are in Social Security.

(b) All employees pay Medicare.

(c) Retirement and Worker Comp rates are different for employee groups.

The Budget: Personnel - Benefits

Medical – Dental – Vision Insurances

- Medical: monthly costs: composite or tiered
- Medical: composite rate is same monthly premium
- Medical: actual tiered rates:

| | | |
|-------------------|------------------|------------------|
| Single Employee | \$ 353.45 p/mo. | \$1,133.45 p/mo. |
| Employee + Spouse | \$1,398.35 p/mo. | \$2,178.35 p/mo. |
| Employee + Family | \$1,844.25 p/mo. | \$2,624.25 p/mo. |
- Dental: same monthly payment plans as medical
- Vision: usually least used insurance
- Self Insured: Done with caution and a “good broker”

The Budget: Personnel - Benefits

Manage your district's benefits – Why? How?

- ⊕ Plan Year: Extremely important for budgeting
- ⊕ Dependent audit
- ⊕ Prescription insurance
- ⊕ Pooling
- ⊕ Plan for really sick individual(s)
- ⊕ Audit your claims
- ⊕ Health Savings Accounts (HSA)

 OPED: Other Post Employment Benefits

 SERP: Supplemental Employee Retirement Plan

The Budget: Personnel - Benefits

Affordable Care Act (ACA)

- Requires every individual to have basic health insurance or face a penalty
- The ACA requires insurance companies to:
 - ☞ report to the IRS the individuals they insured
 - ☞ report to those they insured so they know they were insured
- Part time employees such as substitutes, interns, etc.
 - (a) Not eligible for health insurance benefits provided by the district because they do not belong to a bargaining union
 - (b) But who work an average of 30 hours p/week in a quarter
 - (c) Qualify to receive health insurance benefits provided by the school district or the school district must pay a fine

The Budget: Personnel - Benefits

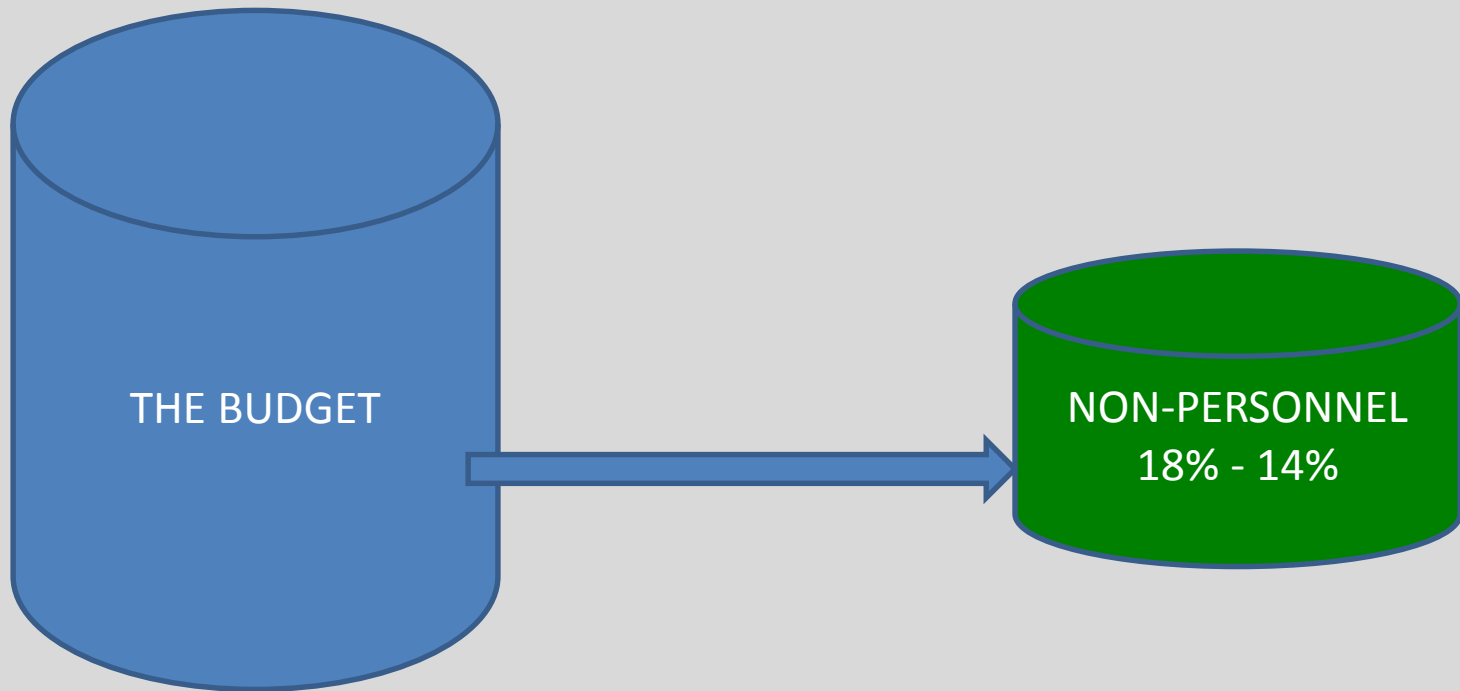
Possible Other School District Provided Benefits

- Life Insurance
- 401K Match
- Payment for Graduate Courses
- Payment for Extra Teaching Certification(s)

The Budget: Personnel – Total Compensation

| | Teacher | HVAC Technician |
|--|---|-----------------|
| Salary | \$35,700 +\$10,313+\$2,000 = \$48,013 | \$42,650 |
| Supplemental Salary: Assistant VB & Golf Coach | \$1,500 +\$1,200 = \$2,700 | n/a |
| Stipend: Tools and Refrigerant Certification | n/a | \$200 + \$3,200 |
| Total Salary | \$50,713 | \$46,050 |
| Statutory Benefits: Certificated 22.48% | \$11,400 | n/a |
| Statutory Benefits: Classified 21.33% | n/a | \$9,822 |
| Benefits: Medical, Dental, Vision, Life Insurance | \$8,550 | \$8,550 |
| TOTAL COMPENSATION This is what you budget! | \$70,663 | \$64,422 |

The Budget



The Budget: Non-Personnel-Utilities

After personnel utilities can be the next largest expenditure

Electricity

Gas

Water/Sewer

Water Irrigation

Telephone

Water Mitigation/Run Off

- Solar
- Wind
- Net-Zero Facility
- Co-Generation
- Regular

ENERGY MANAGEMENT PROGRAM
People and Mechanical

The Budget: Non-Personnel-Contracted Services

- Legal Services: in/out of district – settlements
- Insurance: property & liability, workers comp, nurses
- Transportation: to/from school, activity, maintenance
- Nutritional Services
- Service Contracts
 - Audit Contract
 - Armored Car Services
 - Copiers
 - Staff Development
 - Computer Services
 - Purchasing Contracts
 - Out-of-District Student Placement
 - Agency Staff
 - Crossing Guards
 - McKinney Vento
 - Educational Programs
 - Technology
 - Custodial
 - Maintenance
 - Nutrition Services

The Budget: Non-Personnel-Equipment & Supplies

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CAPITAL EQUIPMENT

SUPPLIES

School Instructional Supplies

District Office Department Supplies

Textbooks: new, replacement, consumable materials

Maintenance & Operations

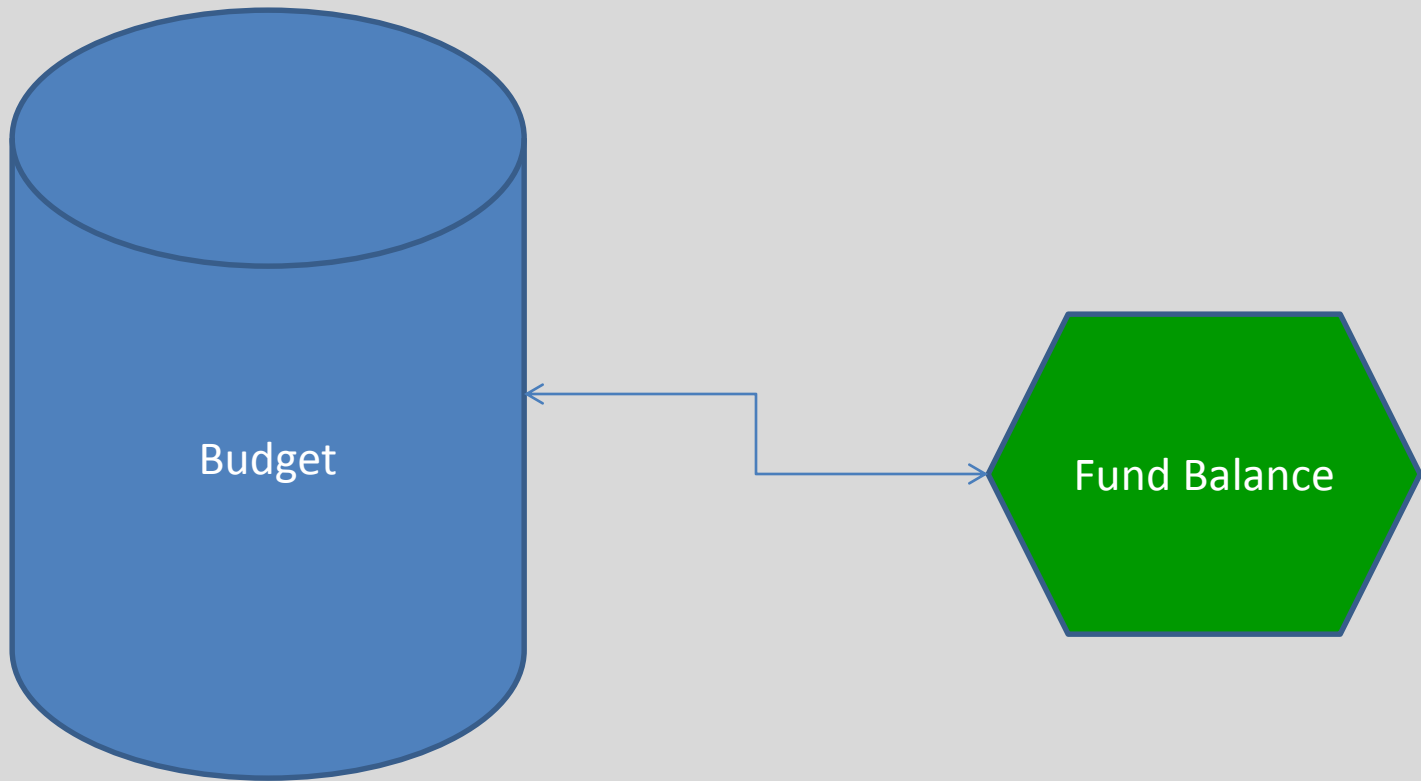
Travel

District Operational

Board of Education: travel, memberships

Technology: licenses, leases, one-to-one program

The Budget



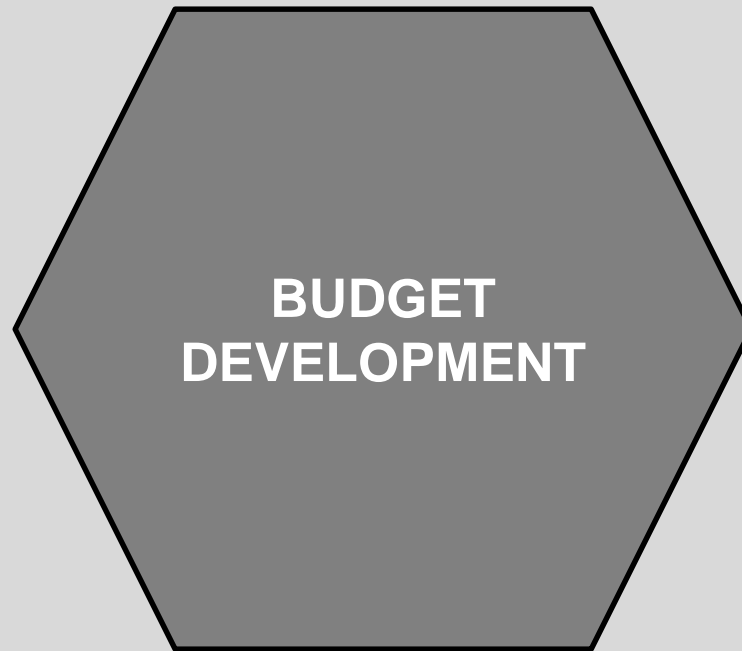
The Budget: Fund Balance

- Cash received and in the bank but not needed for expenditures at the end of the fiscal year.
- This is the money that your “bargaining groups” want and claim that the district has this “huge fund balance” that they could spend for salaries and to avoid layoffs.
- General Obligation (G/O) Bond Ratings provided by Moody’s, Standard & Poor’s and Fitch

The Budget: Fund Balance

| Fund Balance Classifications | Amount |
|-------------------------------|-------------------|
| Non-spendable Fund Balance | 400,000 |
| Restricted Fund Balance | 4,020,000 |
| Committed Fund Balance | 12,814,314 |
| Assigned Fund Balance | 1,650,000 |
| Unassigned Fund Balance | 45,187 |
| TOTAL FUND BALANCE | 18,929,501 |

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Budget Development

A school district's budget development process determines the content of the budget -

- ▶ When process is disorganized, no one can answer specific questions about what the budget contains
- ▶ When process is disorganized, it gives the impression, right or wrong, that money may be wasted
- ▶ The size of the district dictates the budget development process

Budget Development

- ☆ Board of Education involvement in budget development falls into two categories:
 - ✓ **Statutory Involvement**
 - ✓ **Operational Involvement**

- ☆ When should the budget development process start?
 - a) At a minimum the first day of the fiscal year
 - b) At best one to two years before the budget begins

- ☆ *“Welcome new ideas but don’t let them all move in.” A very wise person*

- ☆ *“Have a tolerance for ambiguity.”* Jerry Jones, Owner of the Dallas Cowboys

Budget Development

THE STRATEGIC PLAN

Develop the district's budget based on the district's Strategic Plan -

- Describes the district's goals
- Tells everyone what's important to their school district, what the district is going to do and how the district is going to evaluate what they are doing
- Because the Strategic Plan is the foundation for the budget the district needs to track the plan is being implemented

Budget Development

Cubs School District
Davis, AZ

November 19, 2016

ADOPTION OF NEW K-5 READING SERVICES

AGENDA ITEM: (Explanation of agenda item)

BOARD GOAL:

Expenditure Supports Board Goal 1: High Student Achievement

Expenditure Supports Board Goal 4: Maximize Expenditures

BUDGET IMPLICATION:

RECOMMENDATION:

Budget Development

❖ Budget development's **three important questions**:

- ① Which program(s) do we need to continue funding?
- ② Which program(s) do we need to modify funding?
- ③ Which program(s) do we need to eliminate funding?

❖ Use good data to make budget development decisions. Peter Drucker said it best “*You can't manage what you can't measure.*”

❖ As a Board member you should understand your district's:

- Funding allocation formulas -
- Cost for salary schedule step and column movement -
- Attrition and retirement numbers -

Budget Development

Community Involvement

- (a) What does the Board of Education want to accomplish, or must accomplish, with community involvement?
- (b) What organizational structure should be used to achieve meaningful community input?
- (c) Electronic community input?
- (d) What will the Board of Education do with the results of community input?

Budget Development: Budget Calendar

| Task Date | Responsibility | Budget Development Task |
|-----------|-----------------------------|---|
| 11.01.16 | Dr. Fortunato | Begin development of possible state mid-year budget reductions and potential 2016/17 budget scenarios |
| 01.26.17 | Gwenn Escher - Derdowski | Preliminary enrollment projections reviewed with CBO |
| 02.13.17 | Dr. Fortunato | 2016/17 Budget Development Guide presented to Leadership Team |
| 02.20.17 | Dr. Jones | HR starts hiring for hard-to-fill positions |
| 03.27.17 | Principals Directors | 2016/17 Non-personnel budgets due into Budget Department |
| 04.10.17 | Dr. Beeman | HR/principals review staffing for 2017/18 |
| 08.08.17 | Dr. Fortunato | Board work session on 2017/18 budget |
| 08.22.17 | Board of Directors | Public hearing/adoption of 2017/18 budget |
| | | |

Budget Development: Weighted School Allocations

| ELEMENTARY SCHOOL WEIGHTED STUDENT ALLOCATION CALCULATION | | | | |
|--|-------|------|-------------------------|------------|
| ENROLLMENT | BSC | WF | Enrollment | Allocation |
| Kindergarten | 58.00 | 1.20 | | |
| Grades 1 & 2 | 58.00 | 1.15 | | |
| Grades 3 & 4 | 58.00 | 1.00 | | |
| Grades 5 & 6 | 58.00 | 0.94 | | |
| Inclusive Education Support Center | 58.00 | 0.80 | | |
| Highly Capable | 58.00 | 0.40 | | |
| Early Childhood Education | 58.00 | 0.30 | | |
| | | | Total Enrollment | |
| POVERTY FACTOR | BSC | WF | Enrollment | Allocation |
| F/R Percentage @ xx.xx% | 58.00 | .40 | | |
| MOBILITY INDEX | BSC | WF | Enrollment | Allocation |
| Mobility Percentage @ xx.xx% | 58.00 | .25 | | |
| Total Elementary School Weighted Student Allocation | | | | |

Budget Development: Federal Fatal Sins

When budgeting and expending Federal funds watch out for the “**Fatal Sins**” of Federal funding:

- 💣 Encroachment -
- 💣 Maintenance of Effort -
- 💣 SNS -
- 💣 Time and Effort Reporting -
- 💣 Excess Carryover -
- 💣 Procurement Disbarment -
- 💣 Procurement Sole Source -

Budget Development: Student Success

Step 1: Know how and where the district spends its money

- ✓ Decide what is important to your district –
- ✓ No two districts are exactly alike so its isn't helpful to follow the path of your neighbor -

Step 2: Develop a sequentially articulated strategy for student success

Step 3: Allocate resources to strategy

Step 4: Use targeted professional development

Step 5: Hold programs and people accountable

Step 6: Assess – Revise – Move Forward

Budget Development: Technology

Three Critical Technology Questions

- (1) Can you afford technology?
 - (2) Can you afford not to have technology?
 - (3) Can you afford to continue with technology?
-

Defined Technology Plan

- | | |
|---------------|-------------------|
| ✓ Maintaining | ✓ Expanding |
| ✓ Replacing | ✓ Funding |
| ✓ Staffing | ✓ Training |
| ✓ Licensing | ✓ Up Dated Yearly |

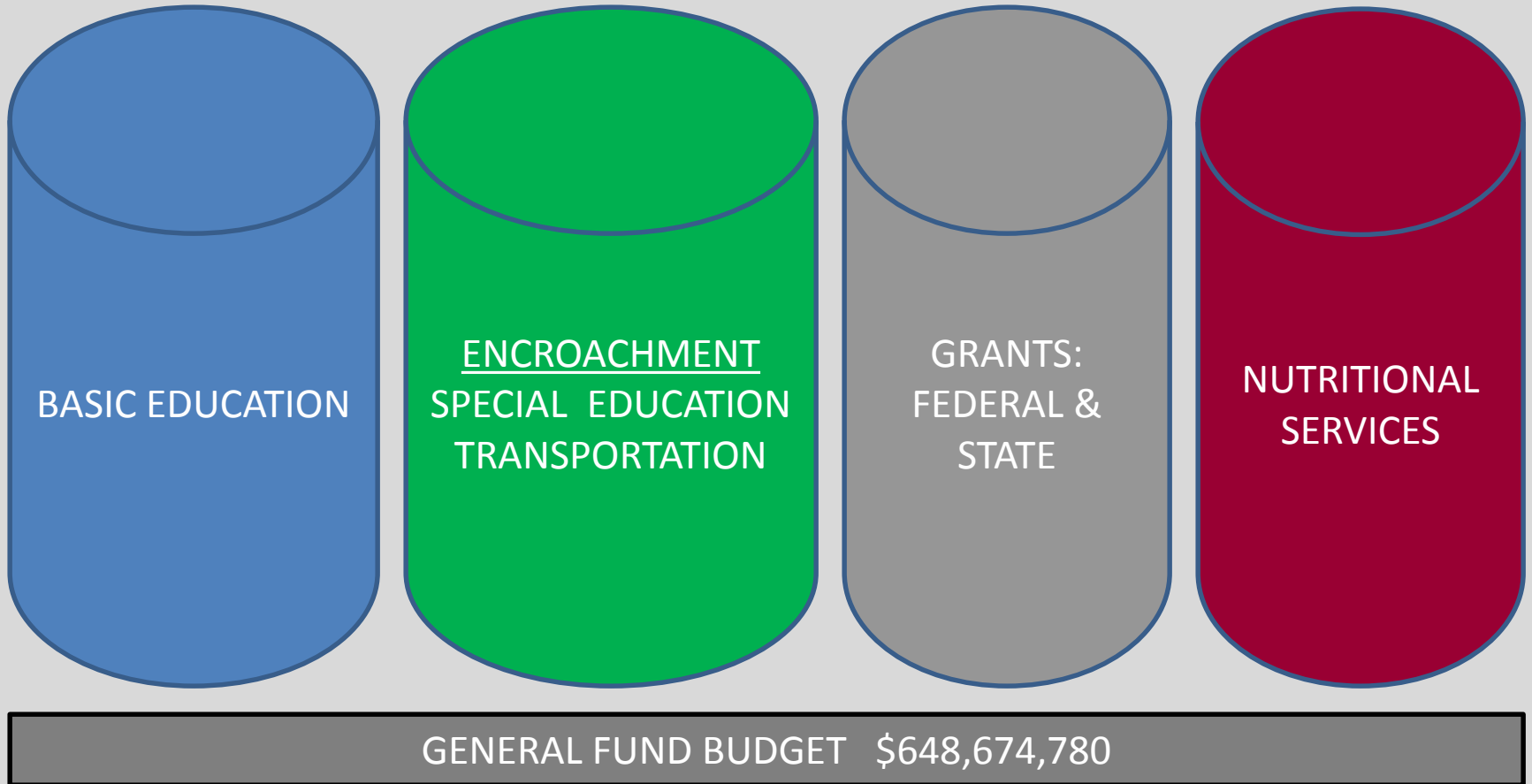
Budget Development: Food Services

National School Breakfast, Lunch, Snack, Dinner Programs

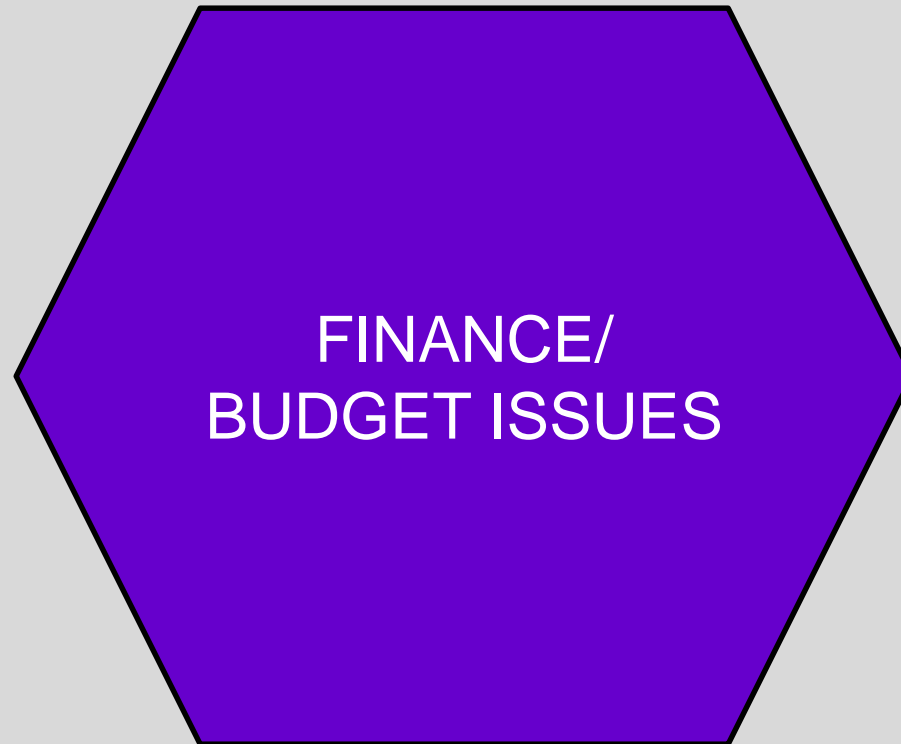
- School food services is a business subject to *P&L* and should always show a profit or have more revenue than expenses.
- School food services should not receive funding support, encroachment, from the district's general fund.
- School food services must balance the USDA nutritional guidelines with what today's students want to eat.

The above must be accomplished in an ever changing food services environment. In some cases, school food service programs have taken on the operational characteristics of hospital dietetic programs and now provide breakfast, lunch, afternoon snack and dinner.

Budget Development: Budget Model/Schematic



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Finance/Budget Issues

SCHOOL FINANCE ISSUES

(1) Law suits based on “equity” in school funding -

(2) Lobbying –

Keep in mind what Mark Twain said bout legislature “No one’s property is safe when the legislature is in session.”

(3) Minimum wage increases (\$12.00 p/hour) -

(4) Class size reduction -

(6) Guns in schools -

Finance/Budgeting Issues

TEACHER SHORTAGES

- Hot education topic since summer of 2015 -
- Teacher shortages in math, science, special education, bilingual education –
- Why shortages?
 - 35% decline in college/university teacher programs
 - Class size reductions
 - Increasing student enrollments
 - High teacher attrition
 - District's re-establishing programs cut

✓ **We Made It**

✓ **I'm Done**

✓ **Questions/Comments**

✓ **Thank You**