AMERICAN ASSOCIATION OF SCHOOL ADMINISTRATORS

School Budgets 101[.]

Any local government or agency—including public schools—uses its budget to describe its program plans for the upcoming year. This brief—written to help expand familiarity with and understanding of school budgets and the role of various levels of government—is a bird's-eye view of school budgets and answers the following questions:

- Who is involved in the school budget?
- What is the role and purpose of the school budget?
- What are the major budget categories for school districts?
- Where do the resources for school budgets come from?
- When are school budgets spent?
- How is this information related to the current federal budget proposal and economic realities at the local level?

The content and information presented here is a general overview of school budgets. As such, specifics will vary between both states and districts. As you work through the rest of this white paper, keep in mind that at any given time, school districts are likely managing three budgets: finishing audits/evaluations and final details of the previous budget, operating and monitoring the current budget, and planning for the next budget.

Overview: While the concept of budgets is common across professional sectors and fields, the budget process in public schools has noticeable differences that impact how districts' allocate and prioritize their funds. For example, while most public and private organizations and businesses have 35 to 40 percent of their budgets tied to personnel and benefits, the comparable number in public schools is, on average, more than double, between 80 and 85 percent. Further complicating districts' ability to address budget priorities, the remaining 15 percent of their budgets is oftentimes impacted and limited by state, local and federal mandates related to everything from building codes to class size requirements.

The school budget involves many different individuals and entities across several levels of government. The budget—and accompanying process—provides school districts and their leaders with an opportunity to justify the collection and expenditure of public funds. School budget resources come from a combination of local, state and federal contributions. The 2006-07 school year is the most recent year for which we have a full tabulation of the education funding contributions split between local government (43.9 percent), state government (47.6 percent) and federal government (8.5 percent).

School budgets are spent continuously throughout the year. Federal dollars in school budgets are also spent throughout the school year, with the rule of 'first in, first out.' That is, money is spent in the order that it is received: A school district cannot spend any of its Title I funds for the 2011-12 school year until it exhausts its 2010-11 school year.

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AASA applauds the Obama Administration's continued support for and investment in education within President Obama's 2011 budget proposal. The emphasis on improving teaching and strengthening teachers and school leaders is an important step toward long-term positive change in our schools. AASA also applauds the significant increase in funding for ESEA. That said, AASA is concerned with the level funding of both Title I and IDEA for FY11, along with a significant increase in the proportion of discretionary education dollars deemed 'competitive.'

Who is involved in the school budget? The school budget involves many different individuals and entities across several levels of government. At the local/district level, budget discussions and work will involve school administrators, school boards, school employees and community members. At the state level, the governor, state legislators and state education agency are involved for their role in setting and managing state funding and state policy, including state equalization formulas. At the national level, the federal education department and members of Congress are involved for their work around education funding and federal policy, such as Title I or IDEA.

What is the role and purpose of the school budget? The school budget—and accompanying process—provides school districts and their leaders with an opportunity to justify the collection and expenditure of public funds. In its most simple definition, a school budget describes a district's plan for the upcoming year as related to anticipated revenues and expenditures. School budgets allow districts to translate sometimes intangible missions, operations and objectives into reality by outlining and providing specific programs and funding/financial terms. A school budget helps bridge the gap that can exist between a district's stated goals and resource allocation. The budget process forces the discussion that will inform choices among various programs competing for the limited available resources. As WilliamHartman writes, key steps of the school budget process include, "…establishing the district's objectives and priorities; allocating resources; involving the public through budget hearings, school board decisions and other means of representative democracy; and, in some states, conducting budget elections." (Hartman, 1999).

What are the major budget categories for school districts? While specific budget lines and items vary district to district and state to state, there are broad general categories that apply to most schools. These categories include, but are not limited to:

- *Transportation* - buses and drivers to transport students
- *Facilities* – to ensure students attend schools that are clean and well maintained
- *Energy* - the school is lit during the day, heated in the winter and cooled in the summer
- *Health and Safety* - the school nurse cares for the ill student, and security measures keep staff and students safe
- *Instruction* - students have a qualified teacher, teachers have instructional aides, and classrooms have supplies
- *Curriculum and Staff Development* - curriculum, training and instructional support to ensure teachers are able to provide students with necessary knowledge and skills
- *Food Services* - nutritious, affordable breakfast and lunch
- *Library Services* - the library and librarian/staff provide research assistance and resources
- *Counseling Services* - counselors for testing prep, college prep, drug/alcohol abuse programs, and supporting family needs in seeking outside counseling
- *School Leadership and Support* - principal, assistant principals and administrative support staff *(Source*: Round Rock ISD)

Graphs 9 and 10 in Appendix A illustrate the percentage distribution for current expenditures for public elementary and secondary education, by function, for the 2006-07 school year. Graph 9 shows that 61 percent of budgetary expenses are related to instruction, followed by 35 percent for support services, 4 percent for food services, and less than 1 percent for enterprise operations. Trying to infer salaries from graph 9 is tricky, because salaries and benefits will be reflected across the categories, appearing in instruction, support services and enterprise operations. Generally speaking, a school district spends between 80 and 85 percent of its entire budget on salaries and benefits, meaning only 15 to 20 percent remains to address all of the rest of the budget's priorities and needs.

Graph 10 examines the breakdown of instruction and instruction-related expenditures. Salaries account for 67 percent of the budget, followed by 22 percent for employee benefits, meaning that school districts have spent close to 90 percent of their instructional budget on staff and benefits. Instructional supplies and purchased services each consume 5 percent of instruction-related expenses, followed by tuition to out-of-state and private schools (just over 1 percent) and 'other' (less than 1 percent).

Where do the resources for school budgets come from? School budget resources come from a combination of local, state and federal contributions. The 2006-07 school year is the most recent year for which we have a full tabulation of the education funding contributions split between local state and federal government. Chart 4 in Appendix A illustrates that local and intermediate governments make a significant contribution (43.9 percent), slightly outpaced by state government (47.6 percent) and well above the federal contribution (8.5 percent).

When it comes to processing the various sources, districts usually keep their state and local funds separate from federal funds. Federal funds (especially grants, competitive dollars, and those dollars outside of long-term funding commitments) represent budget uncertainty. Since the majority of school districts have to pass a balanced budget every year, school districts hesitate to assume or rely on federal dollars that may or may not come into fruition. Three federal funding streams are an exception to this rule and represent federal funding programs around which school districts do feel comfortable planning long-term. These programs are Title I, IDEA and Perkins. These three programs have extensive funding commitments and expenditures at the local level, especially related to personnel, programs and equipment. Changes to the reliability of these programs would disrupt school budgeting in very profound ways, with jobs and critical equipment at stake.

Another reason districts separate federal funds from state and local funds is that federal funds often come with additional reporting and accountability requirements. As such, school districts treat federal funds separately, for ease of monitoring and tracking federal dollars within complex district budgets.

When are school budgets spent? School budgets are spent continuously throughout the year. School districts have much discretion over state and local dollars, and will draw down on those account balances as needed and in accordance with state/local regulations. Federal dollars in school budgets are also spent throughout the school year, with the rule of 'first in, first out.' That is, money is spent in the order that it is received: A school district cannot spend any of its Title I funds for the 2011-12 school year until it exhausts its 2010-11 school year.

Just as important as when school budgets are spent is *how* they are spent. States and districts have 27 months—known as the 'Tydings period'—to spend down their federal dollars. That is, most federal programs appropriated by Congress include a 'carryover period' provision. The Tydings Amendment (Section 421(b) of the General Education Provisions Act (GEPA)) states that any funds that are not obligated or expanded at the end of the period for which they were appropriated remain available for the full 27-month period of obligation. (Source: Texas Education Agency)

Another point to consider is how the spending of formula dollars differs from that of competitive grant dollars. Formula grants, representing a more reliable stream of funding, are spent in a consistent, regular manner, with an understanding/expectation that the dollars will be there year in, year out. The same cannot be said for competitive grants, which by their very nature represent budget uncertainty as to not only what grant dollars will be coming in, but also when they will become available and how many there will be. Formula dollars can be what we call 'forward funded.' 'Forward funding' is a provision of budget authority that becomes available for obligation in the last quarter of the fiscal year and remains available during the following fiscal year. That is, if a district has yet to expend the full amount of its Title I dollars in the last quarter of the fiscal year, that balance is carried over—not erased—and remains available for the next fiscal (and school) year. This is where the 'first in, first out' rule would apply.

Forward funding is typically not available for competitive grant programs. As such, school districts treat—and spend—these dollars differently. Grant programs are funded on a federal fiscal year. Because the grant dollars are typically neither forwarded funded nor subject to the Tydings period, school districts will spend conservatively over the first six months so as to ensure they are not left without funds in the second half of the grant year. As a result, school districts often find a surplus of grant monies they need to 'dump' at the end of the year, since the money cannot be carried over. This is neither effective nor efficient spending. Funneling these same dollars through more budget-reliable formulas (such as Title I) would allow more responsible, effective spending and investment.

How is this information related to the current federal budget proposal and economic realities at the local level? This budget primer, along with AASA's ongoing survey series on the impact of the economic downturn on public schools, provides a rich, informative context in which Congress and the administration can work to make appropriation and authorization policy decisions that provide schools with the budgetary stability they need to carry out the long-term innovation and reform that Congress and the administration are striving for and school administrators work hard to provide.

AASA applauds the administration's continued support for and investment in education within President Obama's 2011 budget proposal. The emphasis on improving teaching and strengthening teachers and school leaders is an important step toward long-term positive change in our schools. AASA also applauds the significant increase in funding for ESEA.

Competitive vs. Formula: The president's budget proposal includes a 65 percent increase in the proportion of discretionary education dollars distributed through competition programs, a significant policy decision to shift dollars away from long-time formula grant programs. While understanding the administration's commitment to rewarding and replicating successful programs and practices, AASA urges Congress to maintain formula grants to provide a more reliable stream of funding to local school districts. Such a strong emphasis on competition implies that competition alone produces innovation and student achievement.

School districts and systems need a certain level of financial stability to undertake the ambitious innovation and reform proposed by the president's budget, a level of reliability and consistency that cannot be achieved through competitive funding. Formula-driven funding represents the dedicated funding stream that allows school districts to appropriately plan for and invest in innovation and reform. AASA is concerned that competitive grants would have a disproportionate negative impact on rural and small districts.

With limited local resources, school districts do not have the time or the capacity to develop extensive competitive grant applications in order to be competitive. This will lead federal dollars away from students in poverty and to districts that have the resources for grant writing teams.

Economic Hardship: AASA would be remiss if we did not address the very trying economic environment school districts are living with. The confluence of the end of ARRA funding and the delayed economic recovery (state/local recovery lags federal recovery by 18 to 24 months) represent a very real obstacle to schools as they try to balance increased emphasis on innovation with ever slimmer operating budgets.

AASA strongly encourages both Congress and the administration to recognize—and be prepared to react to—the possibility that the sizeable increase in federal education funding may not translate into funding increases at the local level. As demonstrated with ARRA dollars, short of other revenue sources or left with no other option, some SEAs/LEAs may replace what had been programs funded by ARRA with these new federal dollars. In those cases where federal dollars simply fill budget holes, it is very difficult to innovate and reform.

IDEA: The federal government level funds its investment in special education, holding steady at its commitment to 17 percent, less than half of the promised 40 percent of the national average per pupil expenditure. Congressional support for IDEA continues to hover below its high point of 18.6 percent in FY 2005. The FY11 proposal of $11.6 billion, while a slight nominal increase, represents level funding when calculated as the federal contribution, staying at 17 percent and effectively reducing the federal commitment at a time of increasing need. The burden for paying for special education will continue to be shifted to local districts, forcing school districts to raise local taxes or cut general education programs. In these difficult economic times, this remains an even bigger challenge. Congress must fulfill its commitment to schools and students throughout the country. AASA strongly supports Congress reaching the 40 percent level through mandatory funding of special education.

Mandatory funding IDEA would ensure school districts received the full federal commitment in just seven years. While the IDEA investment included in ARRA was significant, the impact of those dollars was limited. As one-time funding, districts had difficulty spending ARRA IDEA dollars to expand services to students with disabilities without knowing if the federal funding at that level (a temporary jump to 25 percent of the national average per pupil expenditure) would continue. The president's budget does not make this commitment.

Title I: As the economic recession pushes more students into poverty, the president's proposal level funds Title I, despite the increased need. The proposed budget includes $14.5 billion for the College- and Career-Ready Students program (formerly Title I Grants to LEAs).This is level funding from both FY09 and FY10 levels, and represents a cut, when adjusted for inflation and increasing demand. While ARRA Title I dollars represented a significant increase in Title I funding for schools in the 2008-09 and 2009-10 school years, the ARRA Title I dollars—which played a vital role in supporting education budgets in states and districts that have yet to show signs of economic recovery—will no longer be available in 2011-12, a funding cut that will be compounded by the proposal to level fund the FY11 levels.

The content and information presented here is a general overview of school budgets. As such, specifics will vary between both states and districts. If you have further questions about school budgets, the school budget process or would like to contact a school administrator in your legislative district, please feel free to contact the American Association of School Administrators. AASA would be happy to provide any available information and put you in touch with the leader of your local schools.

Contact: Noelle Ellerson, Policy Analyst, American Association of School Administrators, nellerson@aasa.org

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RESOURCES:

Education Finance Statistics Center by U.S. Department of Education

School District Budgeting by William Hartman (1999)

The School District Budget Process by Ed Scource (2006)

Texas Education Agency

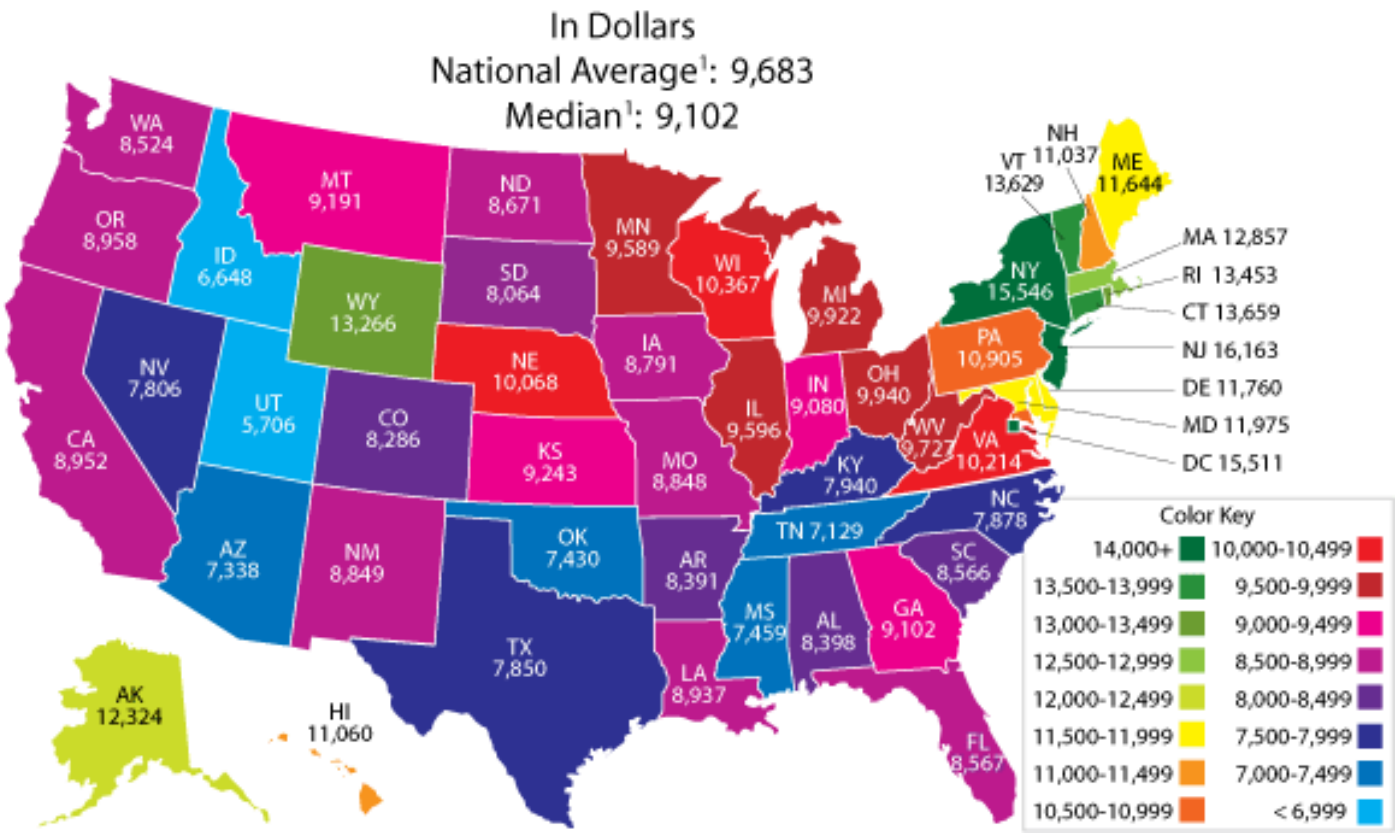
Understanding School District Budgets by Ed Source (2005)

Where Does the Education Dollar Go? Round Rock ISD (2008)

Appendix A: Graphs in Education Finance

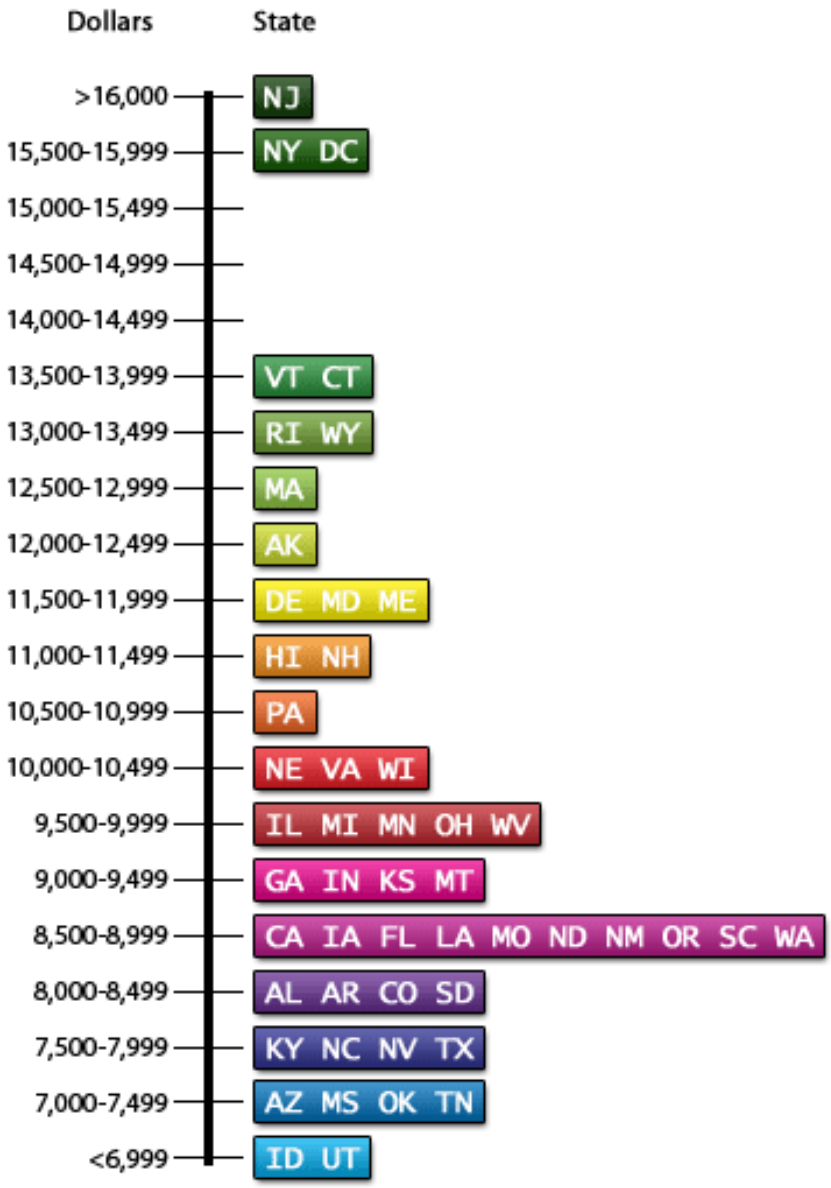
All charts in this section are from the Education Finance Statistics Center (http://nces.ed.gov/edfin) and its *Revenue and Expenditures by Public School Districts: School Year 2006-07 (Fiscal Year 2007)* report.

Graph 1. Current per-pupil expenditures for public elementary and secondary education in the United States: 2006–07

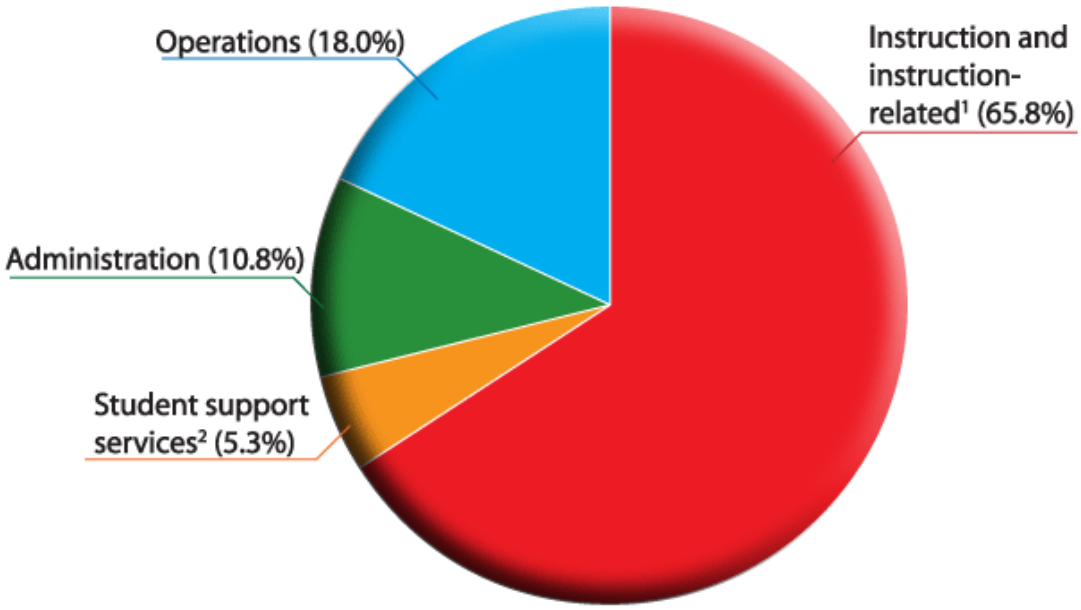


[1] U.S. estimates are for the 50 states and the District of Columbia.

Graph 2. Current per-pupil expenditures for elementary and secondary education in the United States: 2006–07

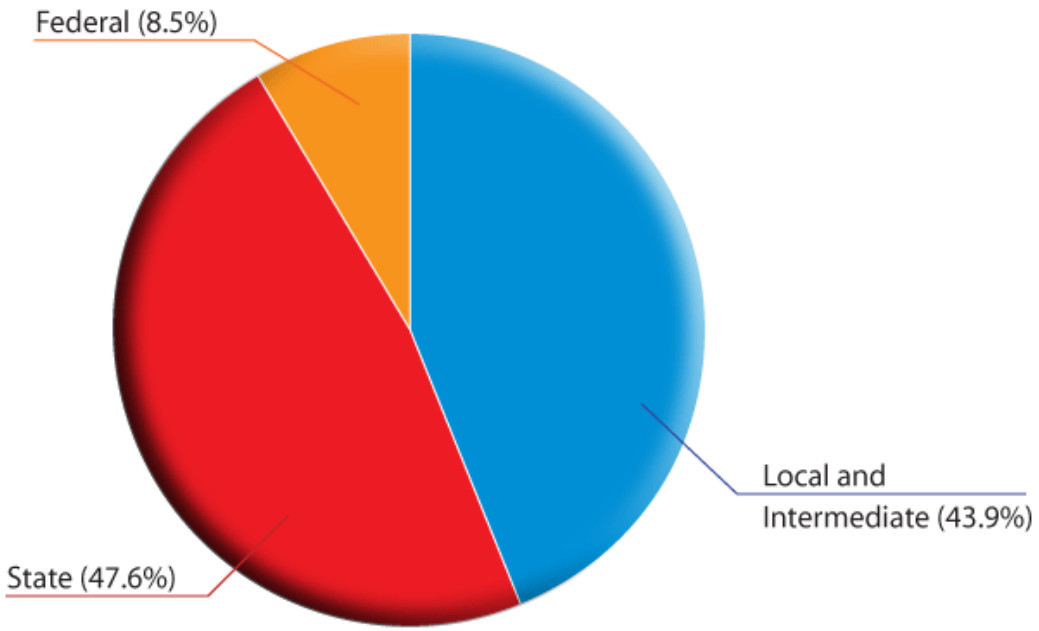


Graph 3. Percentage distribution of total current expenditures for public elementary and secondary education in the United States, by function: 2006–07



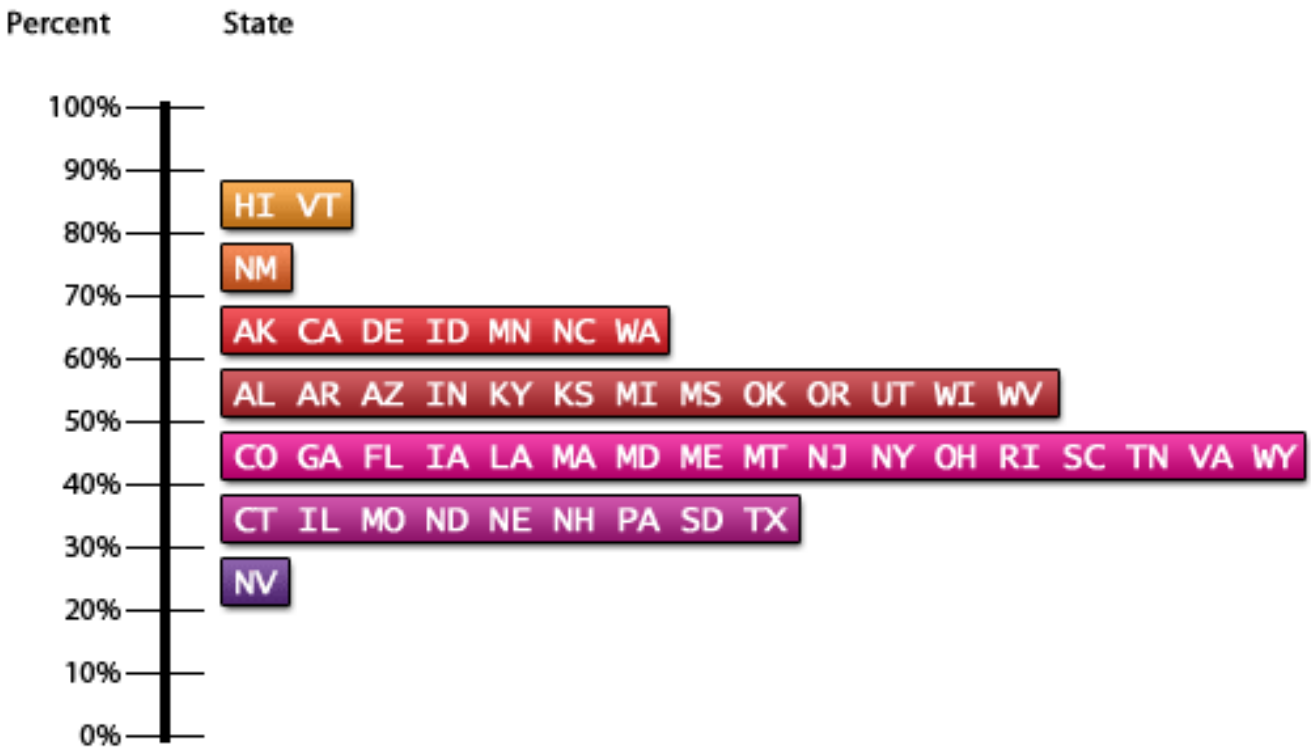
[1] Include current expenditures for classroom instruction (including teachers and teaching assistants), libraries, in-service teacher training, curriculum development, student assessment, and instruction technology.
[2] Include attendance and social work, guidance, health, psychological services, speech pathology, audiology, and other student support services.

Graph 4. Percentage distribution of revenues for public elementary and secondary education in the United States, by source: 2006–07



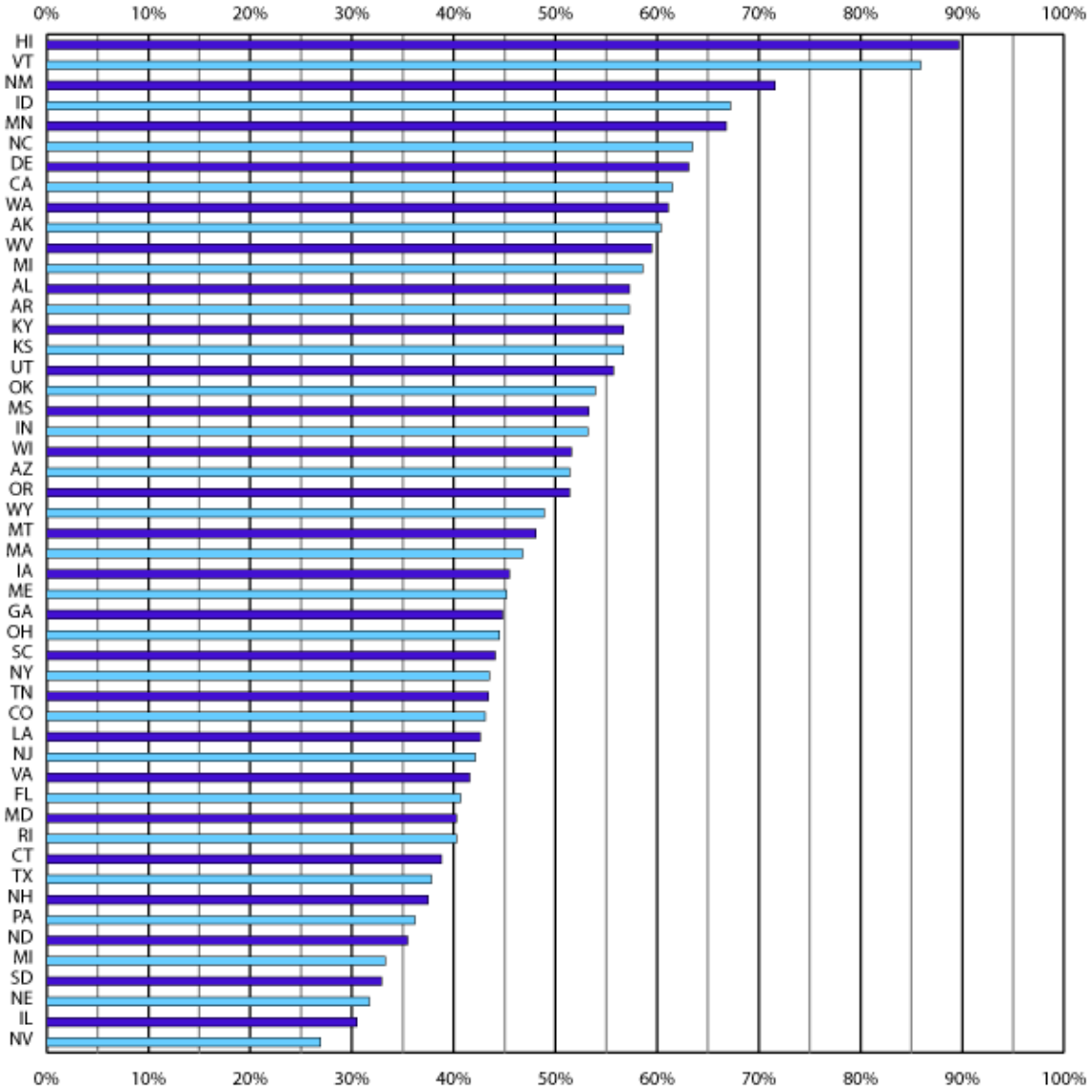
NOTE: Detail may not sum to totals because of rounding.

Graph 5. State revenue as a percentage of total revenues for public elementary and secondary education in the United States: 2006–07



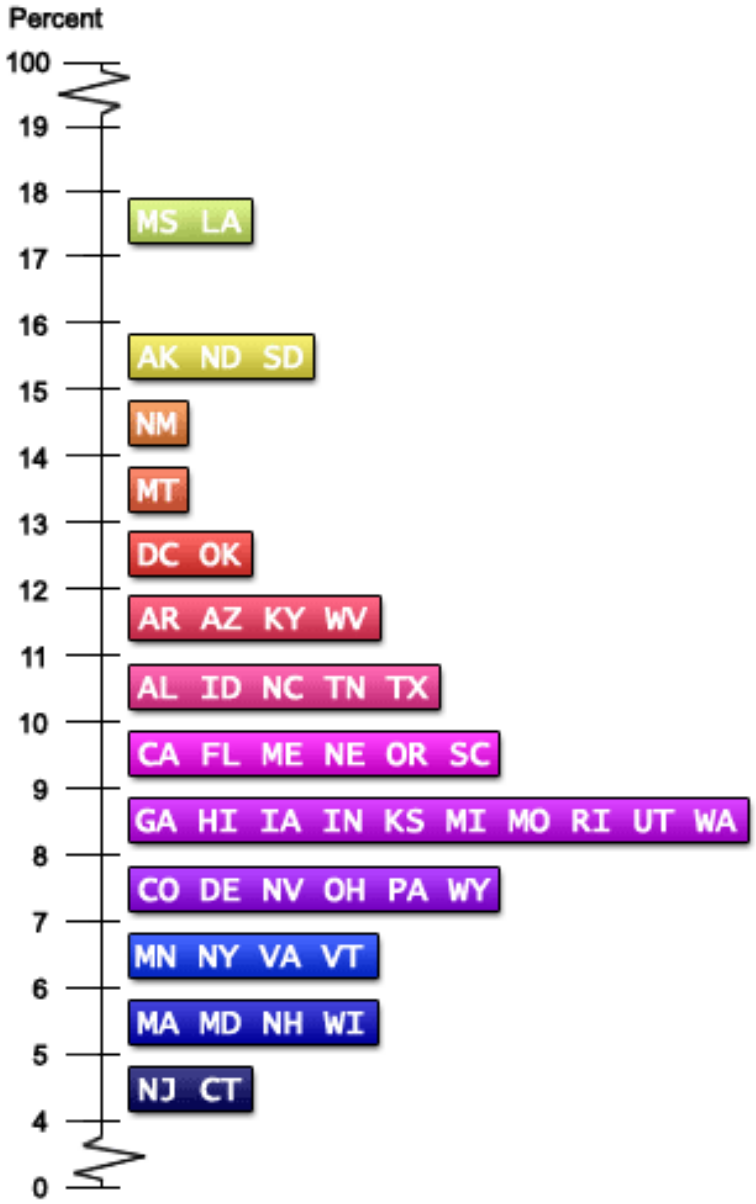
NOTE: Classification is based on the unrounded amount. U.S. average: 47.6%. Median: 47.5%.

Graph 6. States ranked by percentage of public education revenues received from state sources: 2006–07



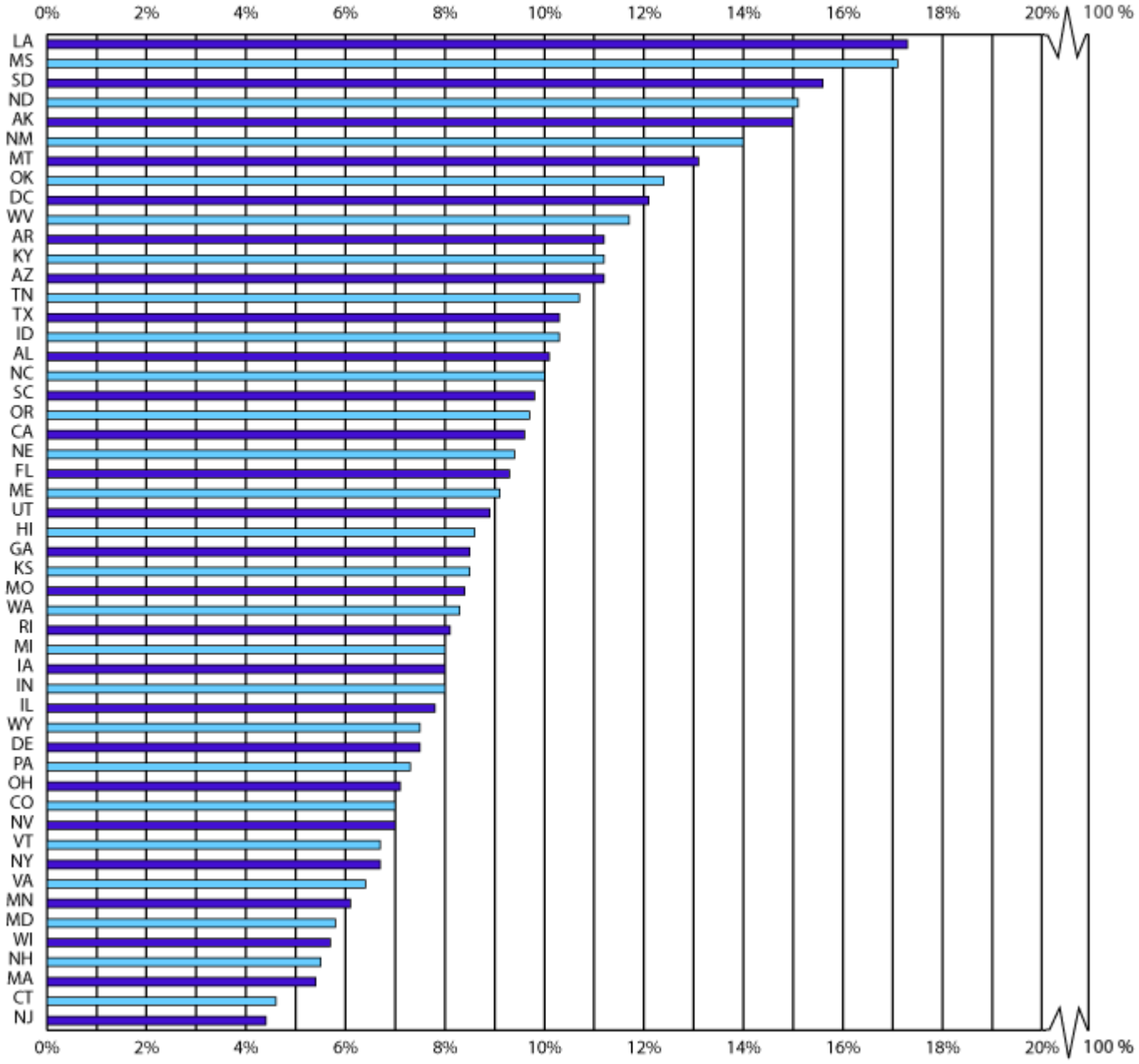
SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," fiscal year 2007, Version 1a.

Graph 7. Federal revenues as a percentage of total revenues for public elementary and secondary education in the United States: 2006–07



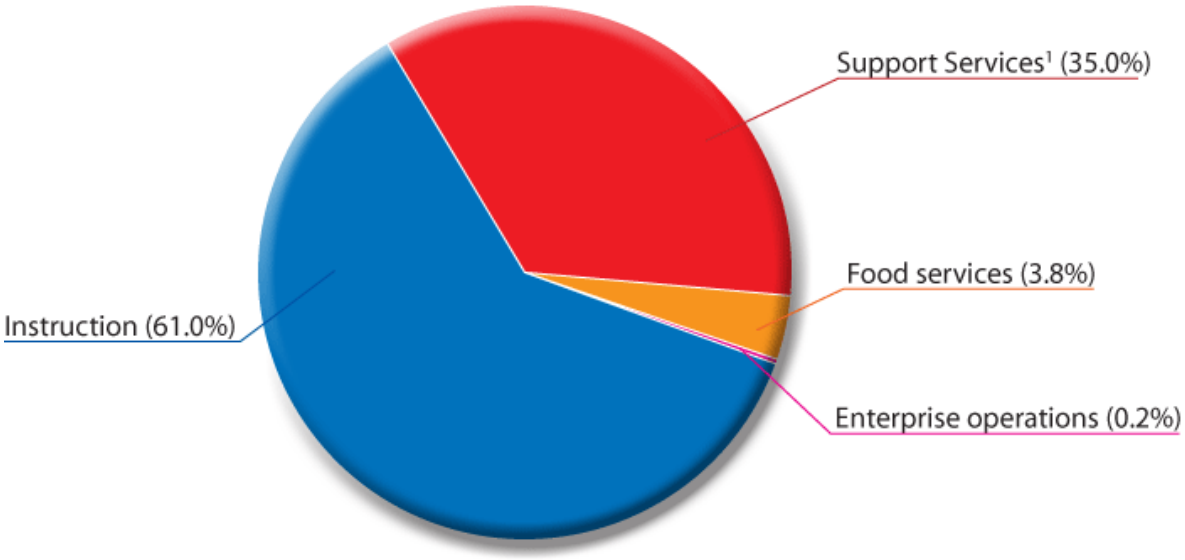
NOTE: Classification is based on the unrounded amount.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," fiscal year 2007, Version 1a.

Graph 8. States ranked by percentage of public education revenues received from federal sources: 2006–07



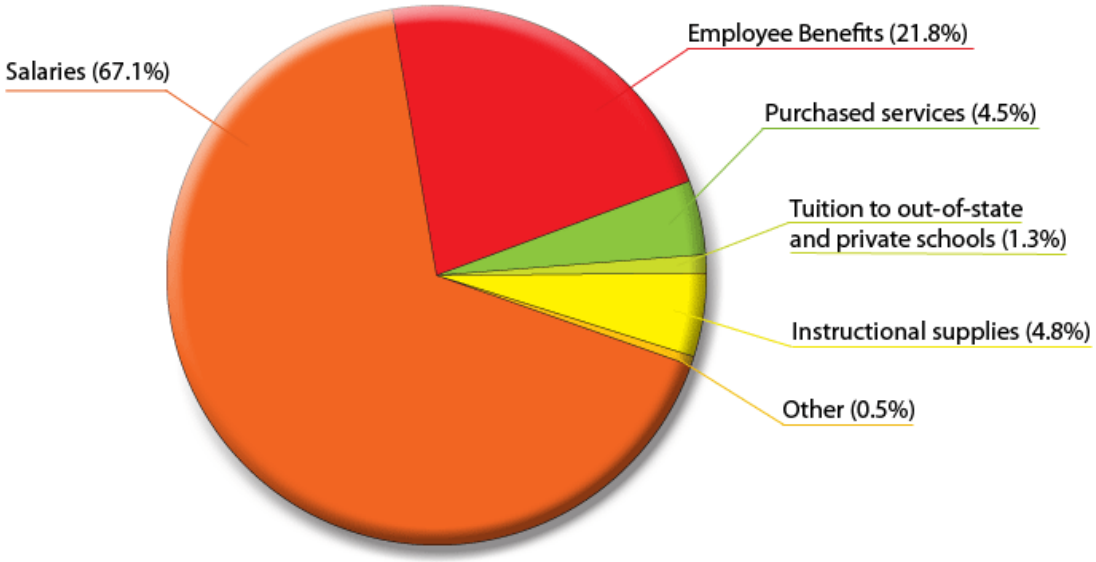
SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," fiscal year 2007, Version 1a.

Graph 9. Percentage distribution of current expenditures for public elementary and secondary education, by function: 2006–07



[1] An expenditure function divided into seven subfunctions: student support services, instructional staff support, general administration, school administration, operations and maintenance, student transportation, and other support services.
NOTE: Current expenditures include instruction, instruction-related, support services, and other elementary/secondary current expenditures, but exclude expenditures on capital outlay, other programs, and interest on long-term debt.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," fiscal year 2007, Version 1a.

Graph 10. Percent distribution of current instruction and instruction-related expenditures for public elementary and secondary education, by object: 2006–07



NOTE: Detail may not sum to totals because of rounding. Instruction-related expenditures include salaries and benefits for teachers, teaching assistants, librarians and library aides, in-service teacher trainers, curriculum development, student assessment, technology, and supplies and purchased services related to these activities. Values were affected by redistribution of reported values to correct for missing data items, and/or to distribute state direct support expenditures.
SOURCE: U.S. Department of Education, National Center for Education Statistics, Common Core of Data (CCD), "National Public Education Financial Survey (NPEFS)," fiscal year 2007, Version 1a.

Appendix B: Budget Calendar for 2011-12 School Year: This budget calendar was reproduced/modified from *Understanding School District Budgets* by EdSource (2005).

This flow chart assumes a school budget year that runs July 1 – June 30. The overall process and timing will be very similar state to state, and will simply reflect earlier or later starting timelines depending on each state's fiscal year. Some districts are 'financially dependent'. That is, their budget approval is subject to review by an additional layer of government. This could be the county (for county-wide school districts) or the town or city council, depending on the district's local laws and governance.

FALL 2010: School Districts begin discussion of priorities, evaluate existing programs, and set parameters/goals to guide budget development process.

MID-WINTER/EARLY SPRING 2011: The district adopts its budget calendar and reviews its guidelines for budget development, including anticipated costs of new district initiatives and anticipated savings from eliminating existing programs. This discussion will include estimates of salary/benefit increases and adjustments. This is when the preliminary budget document is created.

MID-WINTER/EARLY SPRING 2011: Governor submits proposed state budget, including projections for state and district education funding/revenues for the upcoming year. District staff use this information to evaluate and revise the preliminary budget. State leaders begin finalizing the state budget.

LATE SPRING/EARLY SUMMER 2011: Final review and public hearings precede adoption of the district budget.

MID-SUMMER 2011: The state budget is adopted and signed into law, and funds become available to districts for the upcoming school year.