Understanding School District *Budgets*

A GUIDE FOR LOCAL LEADERS

JANUARY 2005

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About this publication

This new guide updates one of EdSource's most popular publications, *Understanding School Budgets: As Simple as 1,2, 3.* New administrators, school board members, and interested teachers, parents, and community members have depended on this publication since 1988 to learn about school district budgeting and become more effective participants in finance-related decisions. This new version continues that tradition in the context of a new state accounting system and increasing pressure on schools to improve student performance.

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Understanding School District Budgets: A Guide For Local Leaders

A school district budget is more than numbers. It is a record of a district's past decisions and a spending plan for its future. It shows a district's priorities whether they have been clearly articulated or simply occurred by default. And it is a communications document that can tell constituents a lot about the district's priorities and goals.

A school district budget can certainly be difficult to understand and even more challenging to describe. But behind the volumes of mandatory reporting forms, accounting procedures, and jargon are some basic principles that can help bring clarity for those who develop school district budgets and for those who want to understand them.

Some California school districts use their budget documents to do more than just present financial data. They directly connect their financial decisions to their goals for student, school, and district performance. At best that effort can further those goals. At a minimum it can illuminate some of the obstacles to realizing them.

This guide provides an overview of the mechanics of the budget process and the documents most commonly used to describe a district's financial condition. It begins with a budget calendar and glossary that provide context for the rest of the report. The guide reviews the information school district officials must use for responsible fiscal management, the inevitable adjustments districts must make in their budgets, and the oversight procedures the state has put into place to ensure that districts remain solvent and maintain their financial health. Finally, this report explores some ways that budget information can help decision makers evaluate how well district spending matches educational goals, set priorities consistent with those goals, and plan expenditures that are aligned with that vision.

TABLE OF CONTENTS

The budget calendar for 2005–06: From start to finish

Every school district is simultaneously operating its current-year budget, evaluating its budget from the previous year, and developing its plans for the upcoming year. The following is a typical calendar for the development of a single year's budget.

Fall 2004

Even as one school year starts, districts begin to discuss priorities, evaluate existing programs, and set parameters and goals to guide budget development for the next year.

January–April 2005

The district adopts its budget calendar and reviews its guidelines for budget development. Following the governor's Jan. 10 release of a proposed state budget, district staff members present a discussion of the likely impact on the district. They should build into this discussion the projected costs of new district initiatives and anticipated savings that can be realized from dropping or changing current programs. They should also include estimates of salary and benefit increases based on existing commitments and potential collective bargaining agreements. If this process indicates that staff layoffs may be necessary, preliminary notices must be given to all certificated staff members who might be affected (teachers, counselors, principals, etc.) by specific dates in March. This process needs to be done carefully given the complexity involved in determining staff seniority and the severe impact layoffs can have on staff morale. A preliminary budget document is typically developed during this time.

May 2005

The governor submits an official "May Revision" of his proposed state budget that will update projections for district revenues in the coming year. The district staff uses this information to evaluate the preliminary budget and make revisions. Meanwhile, state leaders begin finalizing the state budget.

June 2005

Final study sessions and mandatory public hearings precede the governing board's adoption of the budget. The deadline for adoption is July 1. The district then submits that budget to the county superintendent.

July–August 2005

The state budget is typically adopted and signed by the governor sometime in July. (The state constitution calls for the Legislature to adopt a state budget by June 15 and the governor to sign it within 12 days, but it is usually later—in some years as late as September.) Once the state budget is signed, a district has 45 days to amend its adopted budget. During this time, the district also closes its books from the previous year. The state's official adoption of funding levels for education and the district's confirmation of its prior-year revenues, expenditures, and ending balance are essential in order to finalize the budget. By Aug. 15 the district receives the review and comments on the adopted budget by the superintendent of the local county office of education.

October 2005–June 2006

State law requires that twice during this period the district staff prepare, the board review, and the county superintendent receive interim reports that update the district's revenues and expenditures and project them through the balance of the school

year. The First Interim Report, due Dec. 15 to the county office of education, covers the period through Oct. 31, 2005. The Second Interim Report, due March 15, covers actual revenues and expenditures through January 2006. With each interim report, the school district board states whether the district's fiscal condition is positive, qualified, or negative (will, may not, or will not be solvent over the next three years), and the county superintendent officially certifies that. These two interim reports represent minimum legal requirements. A Third Interim Report, due June 1, may be required. The district board can also call for additional budget reviews or reports at its discretion.

July–December 2006

Once the district's books are closed, the final balances are reported to the state in October 2006 as part of its annual reporting of unaudited actuals. Concurrently, the district must retain an independent auditor who will review the year-end financial statements and deliver the annual audit report on or before Dec. 15.

Glossary of Terms

Actuals The amount a district actually spent in a given period as opposed to original budget estimates.

Bond Interest and Redemption Fund An account maintained on a local education agency's behalf by the county auditor and used for repayment of bonds.

Cafeteria Fund A separate fund used by many districts to track the income and expenses related to food service.

Debt Service Expenditures made to pay both principal and interest on borrowed funds, including bonds.

Direct Support Costs Services necessary to maintain instructional programs, including curriculum development, library, pupil support, transportation, and maintenance. Most support costs not initially identified with a program may be accumulated and then transferred at a later date as a direct support cost.

District Governing Board The official name for the local school board.

General Fund The primary, legally-defined fund used by the state and school districts to differentiate general revenues and expenditures from those placed in other funds for specific uses.

Indirect Costs Agencywide general administrative costs, including fiscal, personnel/human, and data process services. Indirect costs benefit multiple objectives and cannot be readily identified with a particular final cost objective.

Joint Powers Agreement (JPA) An agreement among local education agencies (and sometimes the California Department of Education) to share services or responsibilities. A joint powers board made up of representatives of the local education agencies governs the JPA.

Object Codes For revenues, the object code identifies the general source and type of funds. For expenditures, it identifies the type of item or service being purchased. District line-item budget reports usually reflect fund and object-level information.

Other Outgo Includes outlays for debt service, transfers between funds within a district, and transfers to other agencies.

Position Control A function that coordinates and authorizes positions in accordance with established district policies and procedures. This function is useful for budget development and the preparation of salary projections within a district.

Restricted/Unrestricted In the General Fund budget, the designation of a revenue or expenditure as being for specific (restricted) or general (unrestricted) purposes. Some revenue limit sources may be posted as restricted and some categorical program sources (such as K–3 Class Size Reduction) may be posted as unrestricted.

Special Education Local Plan Area (SELPA) Regional group for purposes of administering Special Education services effectively and efficiently. Districts are organized in SELPAs. Some are countywide, a single large district, or part of a district; and some combine several smaller districts.

Title I Provides funds for educationally disadvantaged students and is the largest of several federal programs included in the federal No Child Left Behind Act (NCLB).

TRANs (Tax Revenue Anticipation Notes) Short-term loans that school districts can use to address a cash flow problem created when expenditures must be incurred before tax revenues are received.

District budgeting operates within a set framework

In California, the state and all school districts operate on a fiscal year that begins July 1. The budget process, however, is virtually continuous. In any given year, it begins in the fall of the preceding year with forecasts of revenues, expenditures, and student enrollments. A preliminary budget is adopted prior to July 1 but generally continues to be adjusted. During the school year, the district confirms its financial status both officially and unofficially. After the books for that year are closed, the process ends with an audit certifying the accuracy of the district records. The calendar on pages 2–3 provides a basic timeline.

A district's elected school board holds final responsibility for adopting the budget, and that budget must be balanced—i.e., allow the district to meet its current and future financial obligations. The board's role in fiscal accountability goes beyond a simple vote, however. The board also sets policies that help guide both the budget development and financial management of the district. It is responsible for supporting and monitoring the implementation of the budget as carried out by the superintendent and district staff. And it sets the expectations for how the district's financial status and expenditure decisions will be communicated to board members and to the public.

A few basic realities create the framework within which district financial management and reporting operate in California. They include:

- the concept of fund accounting,
- the critical role that the number of students plays,
- the process by which districts receive their revenues, and
- the recognition that personnel costs dominate district expenditure decisions.

The fund accounting system—looking at the whole picture

California school districts use a system called "fund accounting." All revenues and expenditures are placed in one of several funds. The one that is used to record most of a district's day-to-day operations is the General Fund, which all districts are required to have.

Most of the district's financial transactions flow through the General Fund. The largest part of the money is for general purposes and is categorized as unrestricted. Some of the revenues that go into the General Fund, however, are restricted to specific uses, usually in compliance with state or federal regulations. This includes most special purpose or categorical programs. There are dozens of these programs, such as Special Education, transportation, instructional materials, and Title I of the federal No Child Left Behind Act (NCLB) that supports disadvantaged students.

General accounting guidelines require that districts place certain revenues into governmental funds that are separate from the General Fund. Most often, these revenues are to be used for purposes other than providing K–12 instruction. In addition, districts have the option of setting up other funds outside the General Fund. These fall into the following general categories:

- **Special Revenue Funds,** such as Adult Education, Cafeteria, Child Development, Deferred Maintenance, and Charter Schools.
- **Capital Project Funds,** such as the Building Fund, Capital Facilities, and State School Building Lease-purchase.
- **Debt Service Funds,** such as Tax Override, Debt Service, and Bond Interest and Redemption Fund.
- **Permanent Funds,** such as Foundation Permanent Funds (endowments in which the main balance is preserved but which produce ongoing income the district uses).

A district can also create Special Reserve Funds that allow the school board to set money aside for various reasons, including anticipated expenses such as benefits for retired employees. The district retains the right to transfer that money—at will—back to the fund or funds it came from.

Some districts also establish separate proprietary and fiduciary funds. Proprietary funds track enterprise activities for which the district charges a fee to external users. For example, a district could provide professional development services to teachers outside the district and charge for that. Fiduciary funds are assets the district holds on behalf of others, such as pension funds for employees. These cannot be used to support district programs.

Each fund is self-balancing and has its own financial statement with a beginning balance, list of revenues and expenditures, and ending balance. The balances for all funds are shown on a district's financial report. A district can temporarily borrow from one fund to supplement another. However, it generally must repay such loans by the end of the same fiscal year. (If the loan is made within 120 days of the end of the fiscal year, it does not have to be repaid until the following year.) In general, the California School Accounting Manual recommends that a district transfer funds as little as possible in order to simplify financial recordkeeping and reporting.

Projecting the number of students comes first

The primary focus of budget development each year is related to General Fund revenues. They represent the bulk of the operating money for K–12 instruction, the central purpose of every district.

In California, a school district has little control over most of its revenue sources. Instead, its income is affected by state-determined funding formulas and the mandatory programs in which it must participate. Officials can also choose to operate optional programs—such as K–3 Class Size Reduction—for which the state provides a set level of funding.

The number of students who attend school is critical to district revenues because most of this funding is provided on a per-pupil basis, adjusted for actual attendance. The budget process thus begins with a careful projection of the number of students. However, the student count is not just a matter of how many children enroll each year. For most funding purposes, districts receive income based on the number who actually attend class, referred to as the average daily attendance (ADA).

The state uses a school district's ADA through April each year to determine its total general purpose (revenue limit) funding. Some special purpose (categorical) funding is based on ADA as well.

Accurate projections of ADA are pivotal to the development of a sound budget. First, a district must estimate how many children will register for school. Most districts use several data sources to arrive at this estimate, including census information, birth rate data by zip code, questionnaires sent home with current students, and sometimes the services of demographers. Then the district needs to look at past years to see what the relationship typically is between its enrollment and its ADA. When districts estimate badly, it is often because of unexpected events like a sudden economic downturn or perhaps the demolition of a large apartment complex.

Changes in a district's ADA can have a significant impact on its revenues. To protect districts from unanticipated reductions, the funding is based on either their current or prior year ADA, whichever is greater. A district with ongoing declining enrollment will continue to receive less money each year regardless of its ability to reduce expenses. Some analysts estimate that while districts lose a full unit of ADA funding for each fewer student, they typically save less than 70% of that amount in terms of reduced costs. Conversely, the incremental cost of each additional student is about 70% of the additional revenues a district receives. Thus, in general, a district with a growing population benefits financially. (One exception can be "basic aid" districts. See the box on page 6.)

The state largely determines revenue levels

Each district has a revenue limit—the per-pupil amount it receives for general purposes—that makes up most of its General Fund revenues. Revenue limit income is a combination of local property taxes and state funds.

How ADA is calculated

A district's ADA is calculated by dividing the total number of days of student attendance by the total number of days in the regular school year. A student attending every day would equal one unit of ADA. The number of pupils enrolled in the school is usually larger than the ADA due to factors such as students moving, dropping out, or staying home because of illness.

The state calculates the revenue limit amount separately for each district based both on its historical funding level and a set of adjustments that changes a bit each year. In most years, that includes a cost-of-living adjustment (COLA). Districts have no control over their revenue limit amount. In simple terms, a district multiplies its revenue limit by its projected ADA to determine its total general purpose funding.

In providing this funding for each district, the state first applies the local property taxes designated by law for that district. The difference between those taxes and the amount due is covered with state funds. If the local property taxes exceed the amount due, the district falls into "basic aid" status. (See the box below for a further explanation of basic aid.)

The rest of the General Fund income comes primarily from restricted categorical (special purpose) support. This includes state programs like Economic Impact Aid and Professional Development, federal categorical programs like Title I, and programs like Special Education that receive both state and federal funds. A district's special purpose income depends on the programs for which it qualifies. Some are based on student characteristics, others on providing specific programs, and a few on the district's size or location. For the most part, the California Department of Education handles the apportionment of both state and federal categorical program funds.

The Legislature and governor, through the annual state budget process, set the amount by which revenue limits will increase (or, in rare instances, be reduced). They may make changes in statute that affect the formula used to calculate them. In addition, they can adjust the amount and allocation process for the numerous categorical programs as well as add or eliminate programs.

Districts also receive General Fund revenue from the state lottery, which has historically provided less than 2% of funds for schools. All districts receive the same per-pupil amount from the lottery. Most of it is unrestricted, but a small portion must be used for instructional materials.

A final group of revenue sources is labeled "local miscellaneous income." Parcel taxes, rental income, interest on investments, and charitable contributions all fall into this category. In some districts such sources represent substantial amounts, while in others they are almost nonexistent. Districts choose whether to pursue these types of revenues, including asking local voters to pass a parcel tax. They can also be aggressive in their management of assets in order to increase district income. Examples include maximizing interest income on district accounts (including bond proceeds) and generating extra revenues through the sale or lease of any surplus district properties.

Expense estimates begin with staff costs

Typically about 85% of a district's General Fund is spent for staff salaries and benefits—of which teacher compensation is about two-thirds—making it crucial that districts project staffing costs accurately. Three things affect those costs: the number of employees needed, the salaries they will receive, and the cost of employee benefits.

Generally, districts allocate teachers—and to some degree other staff—based on negotiated class sizes or other ratios of staff to students. Thus, a district's first step in determining staffing levels is getting an accurate count of how many students will attend school. Once that has been done, officials calculate how many teachers and other staff it will take to educate those students. This calculation depends on the class sizes in the district and the preparation time for which teachers are paid. Both of these are negotiated as part of the collective bargaining agreement between the district and the teachers' union.

"Basic aid" school districts face some different challenges

In a limited number of school districts—fewer than 80 in most years—revenues from local property taxes exceed the total revenue limit income due to a district based on the state formula. These districts are allowed to keep all of their property taxes but do not receive per-pupil general purpose funding from the state. They are called "basic aid" or "excess revenue" school districts and, for them, the process of projecting revenues is somewhat different.

Many of these districts are very sure of their status as a basic aid district from one year to the next. In that case, their revenue projections depend on a solid analysis of the potential property tax revenues in a community, with particular attention to possible changes. An influx of students in a basic aid district does not trigger additional funding. The financial impact of enrollment increases and decreases is more nuanced and less straightforward in these districts.

A few districts go from year to year unsure of their basic aid status. They wait until almost the end of the year to see whether their total local property tax collections will exceed the product of their state-set per-pupil amount times their ADA. The California Department of Education certifies which districts are basic aid at the time of districts' second principal apportionment, which occurs in June at the end of the school and fiscal year. For these districts, predicting revenues and the impact of additional students is far from straightforward.

District participation in special programs usually requires extra staffing, which often includes teachers on special assignment. Some districts use set formulas to adjust administrative and service staff (e.g., vice principals, counselors) based on site-level student counts. Every district also employs a number of classified staff—such as secretaries, janitors, groundskeepers, cafeteria workers, and teachers' aides—who help to keep the operation going.

Conservative estimates of student population and revenues will lead to conservative staffing commitments. If the projection proves to be low, it may cause a sudden rush to hire at the start of a school year and perhaps necessitate moving children around after the year begins. At the same time, being conservative will protect the district from overstaffing, which can have a disastrous financial impact. While districts can add staff after the school year begins, state law substantially limits their ability to dismiss permanent teaching staff—even if they overestimated how many students they would have.

Illustration #1

Major General Fund Revenue and Expenditure Categories

District budgets use standardized object codes to classify their General Fund revenues and expenditures. The following represent the main categories into which both are placed.

REVENUES

Revenue Limit Sources (8010–8099): includes base revenue limits, plus other funds such as Equalization, Summer School, Prior Year Adjustments, etc.

Federal Revenues (8100–8299): includes all money received for the No Child Left Behind Act (Title I, Title II, etc.) plus Special Education and other federal programs.

Other State Revenues (8300–8599): includes lottery and state categoricals (e.g., K–3 Class Size Reduction, Gifted and Talented Education (GATE), Economic Impact Aid).

Local Revenues (8600–8799): includes interest, donations and reimbursements, parcel taxes, rents and leases, and other local sources.

EXPENDITURES

Certificated Salaries (1000–1999): includes teachers, certified pupil support, certified supervisors and administrators, etc.

Classified Salaries (2000–2999): includes instructional assistants, athletics staff, clerical and office, maintenance staff, classified supervisors and administrators, etc.

Employee Benefits (3000–3999): includes Health and Welfare, Worker's Compensation, and other employee benefits.

Books and Supplies (4000–4999): includes approved textbooks and core curricula material, books and other reference materials, materials and supplies, etc.

Services and Other Operating Expenses (5000–5999): includes travel and conferences, dues and memberships, housekeeping services, rentals, leases, and repairs.

Capital Outlay (6000–6599): most commonly refers to site improvements, equipment, and equipment replacement.

Other Outgo (7100–7299): includes TRANs, payments to districts, and payments to county offices.

Direct Support/Indirect Costs (7400–7499): used to record transfers of direct support and indirect costs within or between funds.

A district's first budgetary responsibility is to be fiscally sound

District officials must ensure that the district is able to meet its financial commitments each year. Thus, they must temper the desire to innovate and invest in new priorities—or provide raises to employees—with a clear-sighted evaluation of the district's current and anticipated fiscal condition. Certainly this requires that the adopted budget be fiscally sound. Beyond that, it demands that district officials, most notably the school board, also monitor district revenues and expenditures throughout the year to ensure fiscal solvency.

Districts are required by law to report their financial status to the public and to county office of education officials periodically in budget, interim, and year-end financial reports. Each of these can help identify emerging problems and avert a financial crisis.

Looking at an overview is the critical first step

Each fund has its own line-item budget that provides an important overview of revenue sources and expenditure decisions. A look at the line-item budget for the General Fund in particular reveals a lot about the fiscal health of a district.

Examining the difference between total revenues and total expenditures may show whether a district is operating with a deficit in any given year. A comparison of fund balances from year to year can do the same. Transfers from other funds to the General Fund may indicate that the district is balancing its ongoing budget by borrowing from other funds. Transfers into those same funds may mean that General Fund revenues are subsidizing other operations, such as facilities or a cafeteria program.

The line-item budget also provides a quick assessment of what proportion of the district's revenues are unrestricted (available for general purposes) and restricted (must be used for specified purposes). Expenditures are divided the same way. While these designations conform to state policy, they can also reflect local board decisions to restrict specific revenues or expenditures not required by the state.

In the General Fund, the classification "Designated for Economic Uncertainties" is sometimes referred to as "the reserve." This is money set aside for major unforeseen expenses or revenue shortfalls.

The state requires districts to maintain a reserve of between 2% and 5% of their General Fund expenditures (after deducting Transfers Out and Other Sources/Uses). The percentage depends on the size of the district. The smallest districts (those with fewer than 300 students) must keep a 5% reserve, and the largest (those with more than 30,000 students) are required to keep 2%. Los Angeles Unified School District, the only district in the state with more than 400,000 students, must keep a reserve of 1%.

In difficult budget years—such as 2002 to 2004—it is much more challenging for even the most conscientious districts to make ends meet. Recognizing that, the state has occasionally relaxed for a limited time some of its expectations in regard to both fund transfers and reserves.

Interim reports help ensure solvency during the course of the year

Inevitably the estimates used to create the original budget will change somewhat as the year progresses. There are too many unknowns at the time of budget adoption to expect anything else.

Sometimes, however, unanticipated events create budget problems that are more extreme. For example, in 2002 and 2003, midyear cuts in the state's education appropriations left districts with less revenue than they expected. A shortfall between the district's estimated and actual student attendance can also result in significant losses in revenue. On the expenditure side, the cost of a new program may dramatically exceed estimates and a retroactive midyear settlement of employee contracts can unexpectedly increase personnel costs.

Even the most skillfully prepared budget is just a snapshot in time, and it is imperative that the assumptions upon which it was based are reviewed regularly. Districts are required to certify their financial condition twice during the school year, for the periods ending Oct. 31 and Jan. 31. They do this by filing interim reports in a format specified by the state. The school board must approve the October information by Dec. 15 and the January information by March 15. If a district receives a qualified or negative certification on its Second Interim Report, it must file a third by June 1.

These reports compare the ongoing financial conditions to what was projected in the district's original budget. Through this review of anticipated versus actual revenues and

Illustration #2: Sample School District

2005–06 Combined General Fund

The budget shows how much the district expects to receive and spend for general purposes and for categorical programs.

	2004–05 Estimated Actual			2005–06 Budget		
Categories	**Unrestricted**	**Restricted**	**Combined**	**Unrestricted**	**Restricted**	**Combined**
Revenues						
Revenue Limit Sources	12,655,584	184,203	12,839,787	13,324,221	194,184	13,518,405
Federal	0	237,097	237,097	0	321,049	321,049
Other State	1,460,249	1,954,901	3,415,150	1,320,775	2,398,067	3,718,842
Local	1,273,460	160,454	1,433,914	540,000	18,329	558,329
Total Revenues	**15,389,293**	**2,536,655**	**17,925,948**	**15,184,996**	**2,931,629**	**18,116,625**
Expenditures						
Certificated Salaries	8,464,623	1,292,345	9,756,968	8,659,378	1,245,717	9,905,095
Classified Salaries	1,877,446	417,000	2,294,446	1,882,116	453,069	2,335,185
Employee Benefits	2,051,617	310,877	2,362,494	2,078,292	311,879	2,390,171
Books & Supplies	394,109	210,620	604,729	614,776	1,124,528	1,739,304
Contracted Services	1,286,686	414,809	1,701,495	1,346,046	326,915	1,672,961
Capital Outlay	288,952	80,776	369,758	341,643	251,350	592,993
Other Outgo	59,115	92,528	151,643	95,751	119,254	215,005
Direct Support/ Indirect Costs						
Total Expenditures	**14,422,578**	**2,818,955**	**17,241,533**	**15,018,002**	**3,832,712**	**18,850,714**
Revenues Less Expenditures	**966,715**	**(282,300)**	**684,415**	**166,994**	**(901,083)**	**(734,089)**
Other Sources/Uses	**861,094**	**(314,885)**	**546,209**	**850,093**	**(491,391)**	**358,702**
Net Increase/Decrease	**105,621**	**32,585**	**138,206**	**(693,099)**	**(409,692)**	**(1,092,791)**
BEGINNING BALANCE	**1,724,929**	**377,107**	**2,102,036**	**1,830,550**	**409,692**	**2,240,242**
Net Change	**105,621**	**32,585**	**138,206**	**(683,099)**	**(409,692)**	**(1,092,791)**
ENDING BALANCE	**1,830,550**	**409,692**	**2,240,242**	[illegible]	**0**	**1,147,451**

Beginning balance includes reserves.

Difference between total revenues and expenditures shows this district is operating with a deficit (at a loss).

A comparison of fund balances from year to year can also show the deficit.

expenditures, districts certify whether they will be able to meet their obligations.

The school board is responsible for monitoring the interim reports to ensure that the district remains on a solid financial footing throughout the year. These interim reports include updates on staffing and student attendance, year-to-date accounting, and projections of future expenses. They can also shed light on potential cash flow problems.

Once the school year has begun, reducing expenses can be quite difficult because so much of the budget is devoted to personnel. State law makes it nearly impossible for a district to reduce permanent certificated staff midyear. Districts have more flexibility in regard to classified staff but still must provide them with a 30-day notice prior to any layoffs. Thus when a district discovers at the time of its interim report that it is facing a budget deficit, its options are limited.

If the problem is a question of cash flow in the short term—with expenditures needing to be made before funds become available—districts can issue short-term tax revenue anticipation notes (TRANs). They may also borrow temporarily from other funds, such as the building fund or a special reserve. If the problem is a more serious structural imbalance between revenues and expenditures, districts with healthy reserves often depend on them to get through the year—a short-term fix.

Collective bargaining agreements are central to spending decisions

With so much of a district's expenditures tied up in personnel, collective bargaining agreements can have a dramatic impact on a district's budget, both in current and future years. Contract provisions have both obvious and subtle effects on a district's ability to align its expenditures with its priorities. An increase in salary and benefits is just one facet of that.

Another significant factor is a district's salary schedule. Most districts determine the salary level for their teachers and the majority of other employees based on a schedule that includes "steps" for years of service in the district and "columns" for the amount of education or training employees receive. Staff seniority usually has the greatest influence on average salaries and thus on the percentage of the budget that is spent for personnel. In general, the base salary of most senior teachers is about twice as much as new teachers.

The structure of the salary schedule and the amount of any salary increase has predictable multiyear cost implications. The district needs to consider the long view in negotiations and budget development.

Another significant cost is employee benefits including paid vacations and holidays, sick leave, health care, life insurance, and retirement plans. The state requires some of these, such as retirement and workers' compensation. Virtually every district in the state pays for additional employee benefits, but they vary substantially in the amount they spend, the manner in which they structure them, and the extent to which they expect employees to share the cost. All of these things must be negotiated. Controlling the cost of benefits can be crucial for a district's financial health. Many districts use a benefits cap for this purpose, agreeing in the employee contract to pay a set maximum per employee.

The contract provision with the next greatest financial impact is ar-

Illustration #3: Sample School District

2005–06 First Interim Report

General Fund Summary: Revenues, Expenditures, and Changes in Fund Balance

Description	Object Codes	Adopted Budget (A)	Latest Board Approved Operating Budget (B)	Actuals To Date (C)	Projected Year Totals (Latest Working Budget) (D)	Difference (Col. B & D) (E)
A. REVENUES						
1) Revenue Limit Sources	8010-8099	93,379,997	93,379,997			-
2) Federal Revenues	8100-8299	8,786,960	9,603,508			(53,910)
3) Other State Revenues	8300-8599	17,580,535	18,492,646	2,335,819	18,490,496	(2,150)
4) Other Local Revenues	8600-8799	8,684,155	9,326,590	1,715,994	9,334,295	7,705
5) TOTAL REVENUES		**128,431,647**	**130,802,741**	**23,935,767**	**130,754,386**	**(48,355)**
B. EXPENDITURES						
1) Certificated Salaries	1000-1999	69,783,368	69,612,783	11,821,477	69,612,783	
2) Classified Salaries	2000-2999	16,832,264	16,914,130	5,535,014	16,914,130	
3) Employee Benefits	3000-3999	23,982,828	23,738,350	4,272,615	23,999,341	260,991
4) Books and Supplies	4000-4999	5,586,658	7,188,560	1,208,687	7,190,429	1,869
5) Services, Other Operating Expenses	5000-5999	11,522,095	12,539,321	2,149,263	12,543,007	3,68[illegible]
6) Capital Outlay	6000-6599	519,939	1,040,566	463,648	986,656	(53,910)
7) Other Outgo (excluding Direct Support/Indirect Costs)	7100-7299	3,482,985	3,466,877	817,921	3,466,877	-
8) Direct Support/Indirect Costs	7400-7499	(376,201)	(376,200)	97,946	(376,200)	-
9) TOTAL EXPENDITURES	**7300-7399**	**131,333,936**	**134,124,387**	**26,366,571**	**134,337,023**	**212,636**
C. EXCESS (DEFICIENCY OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES AND USES (A5-B9)		(2,902,289)	(3,321,646)	(2,430,804)	(3,582,637)	(260,991)
D. OTHER FINANCING SOURCES/ USES						
D4) TOTAL, OTHER FINANCING SOURCES/USES		(450,723)	(450,723)	767,997	(450,723)	-
E. NET INCREASE (DECREASE) IN FUND BALANCE (C+D4)		(3,353,012)	(3,772,369)	(1,662,807)	(4,033,360)	(260,991)
F. FUND BALANCE, RESERVES						
F1e) Net Beginning Balance		11,221,007	13,152,673		13,152,673	
F2) Ending Balance, June 30 (E + F1e)		7,867,995	9,380,304		9,119,313	(260,991)

Some variation from the original budget is to be expected.

A minor reduction in anticipated revenues

Higher costs for employee benefits

The anticipated budget deficit increases by about 8%.

A strong beginning balance for the next fiscal year keeps this district solvent.

guably class size because it relates so directly to how many teachers the district must employ. Other things such as retiree benefits, hours of employment, preparation periods, leave policies, safety measures, and the timing of pay adjustments can also have a substantial impact on a district's bottom line.

While union negotiations are almost always done in private, union proposals and district responses, the salary schedule, and the collective bargaining agreement are public documents. Further, with the passage of a new state law in 2004, the district superintendent and chief business official are now required to certify in writing that the costs incurred by the district under a proposed collective bargaining agreement can be met during the term of the agreement. It is critical to a district's long-term fiscal health that the multiyear impact of any collective bargaining agreement be analyzed before it is officially adopted.

Under state law, employee contracts must be renegotiated at least every three years, but there is often an agreement that salary and benefits will be negotiated annually. Some districts, however, commit to multiyear salary agreements.

Assessing a district's financial condition goes beyond the General Fund

A number of expenses accounted for outside of "regular K–12 education" can affect the district's financial solvency. The most obvious is facilities. For example, when the heating system gives out, a district has to fix it. Absent funds set aside for such a need, the money will come out of the General Fund. Several other financial obligations can also affect a district's ongoing revenues or expenditures in unexpected ways.

Special Education requires local funds

Special Education, which provides extra services for students with disabilities, is the largest categorical program in California in terms of dollars. In the district's General Fund, Special Education revenues and expenditures are accounted for in the restricted category. However, the law requires that the allocation of those revenues and many of the expenditure decisions occur outside of the local school board's budget authority.

The state provides the bulk of Special Education funding as a rate per unit of ADA (based on the total number of students in the district). The funds are then targeted to those students identified as eligible for Special Education. However, the funds do not go directly to the district but to a Special Education Local Plan Area (SELPA). The governing boards of the SELPA's member districts and agencies approve a plan for its governance, and their superintendents make sure the plan is implemented. It is up to the SELPA to allocate the funding based on formulas that the member agencies have formally approved. These formulas vary from one SELPA to another.

The law requires that Special Education services be provided regardless of which agency pays for them. Both the state and the federal government provide substantial funding, but not enough to cover the entire cost of the required services. All California school districts are expected to contribute a portion of their unrestricted General Fund money to provide services to their Special Education students. While the amount the state and federal governments will contribute is set at the beginning of each school year, the full cost of services can be quite unpredictable as it is driven by student needs. Further, the cost per student varies. And in some SELPAs, the formula may treat all districts uniformly even though their obligations vary. For these reasons, it is not unusual for a district's General Fund contribution to Special Education to exceed its estimates. The resulting encroachment on a district's operating budget can become a source of serious concern for district officials, particularly because it is not within the district's direct control.

Joint powers agreements provide management options

A SELPA is one example of a joint powers agreement (JPA). Districts participate together in JPAs in order to provide specialized services more effectively and efficiently than they can on their own. This can be for instructional purposes, such as occupational education programs; support services, such as transportation; or central administrative services, such as accounting. Some districts have used a JPA for the purpose of negotiating and managing employee benefits and other insurance purchases in order to keep costs down.

The state has set clear guidelines for tracking JPA expenditures and revenues so that they remain separate from district finances. This also ensures that they are not counted twice in the statewide financial totals the California Department of Education (CDE) collects and reports.

Upcoming requirements for reporting retiree benefits could affect budgets

More than half of the districts in California offer their retirees some health insurance benefits. New accounting rules issued by the Governmental Accounting Standards Board (GASB) in June 2004 will soon require districts to show these and other similar post-employment benefits as liabilities on their financial statements. The new requirements under GASB 45, as the new law is commonly called, will be phased in. The largest districts must comply first. Beginning with the 2007–08 school year, districts that had revenues of more than $100 million in 2000 will be the first to have to meet the new rules.

In the past, many districts only reported the annual cost of retiree benefits in their financial statements. Under the new rules, districts will still have to recognize those annual costs as current expenses in their budgets and will also have to recognize future obligations as liabilities in their projections for future years. They will have some flexibility on how they calculate the projected cost based on assumptions about risk and life expectancy, but they will have to report the number of retirees and active employees eligible for the services.

School Services of California, a school-management consulting firm, reports that some districts were shocked at the magnitude of their future obligations when they were accounted for in this way. Districts may have to renegotiate some of these benefits for retirees with their unions or face negative consequences because of these accrued obligations.

Charter school finance is still evolving

Charter schools represent relatively new entities in the school finance system. In some instances a charter functions like a school within a district, but at other times it may act more like a separate agency. The rules have evolved as these dual identities have become more clearly defined, but the funding process continues to change.

Most charter schools receive their funding as a uniform, set amount per pupil. One allocation is for general purposes and another is a "categorical block grant" that represents aggregate funding for more than 40 categorical programs school districts can receive. All of these funds are discretionary and are distributed to charter schools based on their ADA. The amounts vary depending on the age of the school's students, with the state providing more money as students get older.

Some specific financial issues—often the result of state regulations—challenge relations between districts and charter schools. For example, in unified districts the revenue limit amount is the same for all students. However, districts pass funding on to their charter schools based on the charter school grade-level apportionments. Thus, an elementary charter is entitled to less per pupil than the district receives from the state, while a charter high school is entitled to substantially more.

State law also specifies a month-by-month allocation process for charter schools that is not fully synchronized with when districts receive funding. This is especially true with property tax revenues because districts do not receive their property taxes until December each year. This type of inconsistency creates cash flow problems in some districts. Resolving district versus charter obligations for Special Education students and facilities can also be difficult.

Financial relationships are generally negotiated as part of the chartering process, but disputes are still common. Districts are precluded from considering fiscal impact in deciding whether to approve a charter.

State reporting and oversight requirements establish budget standards

County superintendents can choose one of three financial certifications

When reviewing interim reports, the superintendent of the local county office of education issues one of three certifications in regard to an LEA's ability to meet its financial obligations for the current fiscal year and the next two years:

Positive = the LEA *will* meet its obligations.

Qualified = the LEA *may not* be able to meet its obligations.

Negative = the LEA *will be unable* to meet its obligations.

There is tremendous variation in the size, location, and student diversity in California's 985 school districts and 58 county offices. While their budgets differ accordingly, all of them must meet common state requirements, such as budget deadlines, balanced budgets, and the responsibility to invite public comment. In addition, districts are required to submit specific reports to the county superintendent and to commission a financial audit each year.

California has standardized many school district accounting and reporting forms in an effort to further increase accountability for the use of public funds. One strong motivation was to create an early warning system to help avert a financial crisis, such as bankruptcy and/or the need for an emergency loan from the state. Most of these apply to every local education agency (LEA). LEAs include county offices of education, school districts, joint powers agencies, and charter schools that receive their funding directly from the state.

In 1991 Assembly Bill (AB) 1200 created a formal process of review and oversight that furthered these goals. The process requires the county superintendent to approve the budget and monitor the financial status of each school district and JPA in its jurisdiction. County offices of education today perform a similar function in regard to many charter schools. The CDE, in turn, reviews the finances of county offices.

In 2004 lawmakers strengthened these fiscal accountability provisions with the passage of AB 2756. The new law calls for the state to update the standards and criteria used for the fiscal oversight of LEAs. These new standards take effect in 2006–07. The law also made immediate changes in the process county offices use to review district budgets and interim reports.

The county superintendent reviews district finances several times annually

Each year, local LEAs submit to the county superintendent at least five finance-related documents for review that are then submitted to the state superintendent of public instruction. They include the district's preliminary budget passed by July 1, the first and second interim reports, an unaudited financial report at the end of the budget year, and the district's annual audit a few months later. (County offices submit their own budgets and reports directly to the state superintendent for a similar review.)

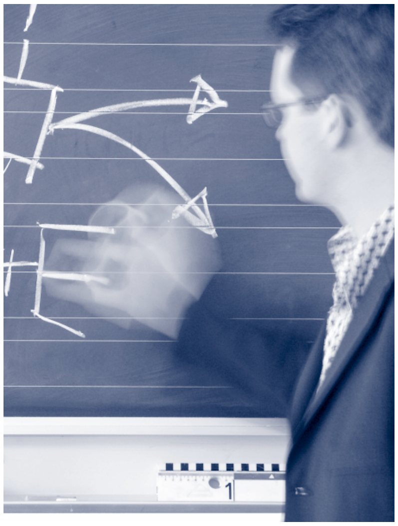
The process begins with the budget adopted in July. Based on its review, the county superintendent approves a district's (or charter school's) budget, approves it conditionally, or disapproves it. Districts with approved budgets proceed with the implementation of their programs as planned.

A conditional approval became an option with the passage of AB 2756 in 2004. In this case, the county superintendent submits to the district governing board written recommendations for revising the budget, which may include specific budget adjustments. The county superintendent can also appoint a fiscal adviser and/or convene a committee to review those recommendations. The governing board of the district must submit a revised budget to the county office after holding a public hearing. The county at that point must either approve or disapprove the budget. If the county finds that the budget revisions were not sufficient or appropriate, it can use that as the basis for a qualified or negative certification at the time of the first interim report in December, even if the revised budget is ultimately approved.

In the case of a budget disapproval, the county superintendent must call for the formation of a budget review committee (BRC). With approval of the CDE, the county and district can agree to waive this requirement. If the BRC is waived or if both the BRC and the state superintendent disapprove the budget, the county superintendent must, in consultation with the state superintendent and the district governing board, develop and adopt a budget and fiscal plan for the district. The county superintendent may also stay or rescind any action that is inconsistent with the adopted budget.

If a district does not submit a budget to the county superintendent, the county superintendent is to develop a budget for that district by Sept. 15 at district expense. The state superintendent is required to report to the Legislature and the state director of finance if any district does not have an adopted budget by Nov. 30.

The next official review occurs with the LEA's First Interim Report. The county superintendent issues a positive, qualified, or negative certification based on this review. (See the box on page 14.) The same process and reporting accompanies the Second Interim Report. When a district receives a qualified or negative certification, it loses some of its financial autonomy. Its collective bargaining agreements are subject to county office scrutiny prior to board approval, and it is prohibited from incurring specific nonvoter-approved financial obligations (such as TRANs). It will also have additional reporting obligations, including a Third Interim Report due June 1.



District warning signs that can trigger budget disapproval

AB 2756, passed in 2004, requires the use of 15 predictors developed by the Fiscal Crisis and Management Assistance Team (FCMAT) as one basis for evaluating a district's adopted budget. If an external reviewer has found more than three of the following in evidence, the county superintendent must withhold budget approval unless the district can provide adequate assurances that it is able to meet its financial obligations. The official list of 15 predictors is as follows:

1. Governance crisis
2. Absence of communication to educational community
3. Lack of interagency cooperation
4. Failure to recognize year-to-year trends
5. Flawed average daily attendance (ADA) projections
6. Failure to maintain reserves
7. Insufficient consideration of long-term bargaining agreement effects
8. Flawed multiyear projections
9. Inaccurate revenue and expenditure estimates
10. Poor cash flow analysis and reconciliation
11. Bargaining agreements beyond state cost-of-living adjustment (COLA)
12. No integration of position control with payroll
13. Limited access to timely personnel, payroll, and budget control data and reports
14. Escalating General Fund encroachment
15. Lack of regular monitoring of categorical programs

These items are part of a comprehensive list: “FCMAT Predictors of School Agencies Needing Intervention.” In its role as a financial adviser, FCMAT has found these to be the most common school agency problems. The full list and further explanation is available at: www.fcmat.org

FCMAT helps with planning, managing

Districts with financial problems often receive help from the Fiscal Crisis and Management Assistance Team (FCMAT). This state-funded organization is overseen by an advisory board made up of county office and school district superintendents, plus an administrator from the CDE. Legislators (AB 1200) created FCMAT in order to provide assistance to districts with financial problems or other management needs. FCMAT is establishing regional teams of experts that can be used as budget advisers when needed as part of the new review requirements. It also provides training for school business officials.

Particularly during difficult economic times, some school districts have only avoided financial insolvency by receiving emergency financial support from the state. When the state provides such a loan, FCMAT has a more official role. It conducts an assessment of major operational areas in a district and then develops an improvement plan, providing progress reports to both local and state authorities. The state also appoints an administrator who, at a minimum, has veto power over district actions. When the amount of the loan exceeds a set threshold, the state appointed administrator takes control of the district. The board then loses its decision-making power, and the district superintendent must be dismissed.

The audit provides a final check of district financial procedures

By law, every school district must hire an independent auditor who reviews its financial records once the books are closed for a given school year. Each district must submit its audit report to the county office of education, the CDE, and the state controller.

The audit is an after-the-fact look at how the district operated. It tells the governing board and the public about the integrity of the district's financial systems and practices. Formally presented at a public meeting, the report includes a management letter that highlights any concerns or problems the auditors found—including serious "audit exceptions"—plus recommendations for addressing them. Districts must then provide information on whether the findings have been addressed and the conditions corrected.

An audit is an advisory document intended to help a district improve its financial management. The absence of audit exceptions does not necessarily mean a district has no financial worries. Similarly, a long list of recommendations does not mean that district staff members are acting irresponsibly. The audit is intended to provide important information with which to help evaluate a district's operations and its future financial health, but it is just one of many tools for doing that evaluation.

County offices have long been expected to review district audits and report audit exceptions related to attendance, inventory of equipment, and internal controls. Beginning with the 2004–05 school year, they are now also required to inform the state superintendent of public instruction and the state controller's office if any audits include exceptions related to instructional materials, teacher misassignments, and school accountability report cards (SARCs).

Budgets can link finance decisions to performance and priorities

The budget documents and official financial reports that districts prepare for the county office and state follow prescribed governmental accounting conventions and state requirements. They must be accurate and thorough. But the format needed for consistent state reporting often differs from what the lay public—including school boards and many district officials—needs in order to understand the significance of the information.

While the official budget is important for understanding a district's overall fiscal condition, it leaves many of the most important day-to-day questions about district decision making unanswered. Districts can use the same data they compile for these official documents to create reports for their boards and the public that make school district finances clearer. These reports can illuminate a district's fiscal condition, provide important details related to specific schools and programs, look at change over time, and facilitate comparisons. In other words, they can describe how effectively the district is managing its resources to meet its priorities, address performance issues, and control its future. The state's account code structure helps make this possible.

Districts can align priorities and resources with performance goals

A budget document reveals a great deal about a district's priorities, even when those are not explicitly stated. Often such priorities become clear through a comparison with similar districts. Wage levels are a good example. A district's officials may believe that having a generous salary schedule will ensure that the district has high quality teachers. They may decide it is worth having larger classes in order to accomplish that goal. Comparing both the salary levels and class sizes to those in other districts should highlight that decision. Another district may believe that having additional certificated staff work as coaches is more important than providing instructional aides for teachers. That district may have a higher share of its expenditures in certificated salaries and a lower share in classified salaries.

Some district policies are spelled out in budget documents. For example, a district may choose to allocate supplies to school sites based on enrollments, programs, or some other formula. It may distribute counseling services based on student characteristics rather than just the number of students. Each strategy is likely to give some schools an advantage and others a disadvantage. Such trade-offs can be evaluated against the district's goals for student performance. "Equal" services at a school with students who are already behind might be counter to a district commitment to narrow the achievement gap. On the other hand, reducing the services or enrichment programs available to high-performing students may not make sense if the district's highest priority is to improve college admissions.

New ideas for improving education emerge constantly. Some are mandates from the state or federal government, some are initiatives that promise additional funds, and some are supported by staff or community but depend on existing district resources. Some are "experiments" in the truest sense of the word, and others are well proven. All, however, have some fiscal impact. A thorough financial analysis can help ensure that such initiatives get the resources necessary to be successful and that they do not inadvertently hurt other efforts.

Implementing new ideas can also mean abandoning old ones. Some experts suggest that districts directly link any expenditure increase for a new program to an expenditure decrease somewhere else. They also counsel against simply building on "what is" by using only new dollars for district priorities and assuming that all other expenses will remain the same.

SACS makes new analyses easier

The state's standardized account code structure (SACS) provides all California school districts with a uniform and comprehensive chart of accounts that they must use to categorize each revenue and expenditure. This system, which was first introduced in the 1990s, represented a major transition from previous accounting requirements.

As of the 2003–04 school year, all districts must report their financial information electronically using SACS. The uniform use of these codes is expected to dramatically improve the ability of school districts and the state to analyze school expenditures and extract more useful information for policymakers, educators, and the public. Districts vary in how skilled and how motivated they are to change their budget reporting and analysis practices to take advantage of these capabilities. (See the box on page 18 for a listing of these codes and their uses.)

Using the SACS categories, financial information can be displayed in a number of ways that connect revenues and expenditures to specific district goals and activities. School and department level data can add to the sophistication of these budget analyses. SACS facilitates reports and comparisons that were previously extremely difficult or even impossible. However, districts have flexibility in the extent to which they use the system. They also vary in their interest in going beyond required reports and in their professional capacity to do so.

For example, districts use SACS to break out their expenditures into general categories of goals and functions. However, the system also facilitates the creation of more detailed categories based on the priorities and programs districts wish to examine more closely. For example, the state requires that a district track instruction expenditures

Districts track budget items using the standardized account code structure (SACS)

Category	Major subcategories	Explanation of use
Fund	• Governmental funds (including General Fund, Special Revenue, Capital Project, Debt Service, and Permanent funds) • Proprietary funds • Fiduciary funds	Each fund is a self-balancing set of accounts recording financial resources and liabilities. Revenues and expenditures are posted in the fund that will be used to administer them.
Resource	• Unrestricted resources • Unrestricted resources with special reporting requirements • Restricted resources (including restricted revenue limit, federal, state, and local resources)	This indicates whether the revenues come from general purpose funds or from a restricted source, such as a categorical program.
Goal (Program)	• Instructional (including regular K–12 education, adult, specialized services, supplemental education, Special Education, regional occupational center/program, and nonagency) • Other goals (e.g., community services and child care) • Undistributed	Expenditures are tracked by goal when applicable, which identifies the instructional setting or group of students receiving services. Expenditures that cannot be directly assigned to a goal are coded to Goal 0000, Undistributed.
Function (Activity)	• Instruction • Instruction-related services (e.g., supervision, library, school administration) • Pupil services (e.g., counseling, health services, transportation) • Ancillary services (e.g., athletics) • Community services • Enterprise (services provided for a fee) • General administration • Plant services (e.g., maintenance, rents) • Other outgo (e.g., debt service)	Functions track the general operational area and group together related activities. Many functions, such as instruction, serve a variety of goals.
Object	• Revenues, including revenue limit sources, federal revenue, other state revenues (e.g., categorical programs, state lottery), and other local revenue • Expenditures, including certificated salaries, classified salaries, employee benefits, books and supplies, capital outlay, and other outgo	For revenues, the object code identifies the general source and type of funds. For expenditures, it identifies the type of item or service being purchased. District line-item budget reports usually reflect fund and object-level information.
School	• The district may assign a code for each school.	Districts must provide the capacity to include this field in their accounts, but state reporting at the school level is currently optional.

Illustration #4: Sample School District

2005–06 Program Summary, Certificated Salaries

Description	Adopted 2005–06	Actuals 2004–05
POSITIONS		
K-5 Teachers	191.80	194.90
6–8 Teachers	69.60	71.60
ESL Teachers	4.00	4.00
Teacher On Spec Assignments	1.40	1.40
Sub Teacher Sick Leave	0.00	1.00
Certificated Salaries	266.80	272.90
EXPENDITURES		
Teachers Salaries	640	
K-5 Teachers	9,230,329	9,071,026
Science Teachers		550
Phys Ed Teachers		800
6–8 Teachers	3,605,642	3,694,492
Other Teacher Salaries	50	93,347
ESL Teachers	201,936	343,437
Teacher On Spec Assignment	83,059	136,556
Administrator Spec Assignment		120
Substitute Teacher—Vacant Positions		180,465
Substitute Teacher Sick Leave	456,391	355,366
Sub Teachers Curriculum Development	3,000	47,136
Subsitute Teachers—Jury Duty	2,810	5,796
Substitute Teachers—Negotiations		520
Substitute Teachers—Other	90	12,591
Substitute Teachers—Industrial	2,675	1,730
Teachers—Others		40,957
Certificated Salaries	**13,586,622**	**13,984,888**

Salary data are based on actuals, not averages. Does this big decrease in costs indicate an influx of newly credentialed ESL teachers?

Using SACS, a district can examine staffing assignments and costs in detail.

(other than Special Education) using the 1000 function code. However, local districts can use codes 1001–1099 to create their own instruction categories that might be by grade level, subject, or some other variable they want to be able to analyze.

When districts use these data in conjunction with traditional object codes—and with department or site-level information—they can perform quite detailed analyses. Some districts look at the differences in total support they are providing to elementary, middle, and high schools. Some examine how particular categorical funds—such as Instructional Materials or Economic Impact Aid—are distributed. A few use SACS as the foundation for data systems sophisticated enough to analyze all their expendi-

Illustration #5: Sample School District

2005–06 Adopted Budget
General Fund Expenditures by School and Program

Removed from this display are the expenditures for the other eight schools in the district.

Districtwide programs are accounted for separately.

	FTES 2005–06	ABC School	Special Education	Student Transportation	Direct Instruction Support	District General Support	Routine Repair & Maintenance	2005–06 Working Budget	2004–05 2nd Interim Budget
Site Enrollment		749							
Certified Salaries	229	1,870,226	1,628,444	0	1,901,883	285,094	0	**16,203,377**	16,423,129
Classified Salaries	99	278,835	536,519	232,434	291,967	1,249,021	202,922	**4,265,860**	4,258,751
Employee Benefits		691,333	683,649	114,862	276,303	868,030	81,778	**6,048,670**	5,452,052
Total Salary and Benefit Expense	**328**	**2,840,394**	**2,848,612**	**347,296**	**2,470,153**	**2,402,145**	**284,700**	**26,517,907**	**26,133,932**
Books & Supplies		[illegible]	16,745	24,333	336,857	161,607	39,500	**1,051,481**	2,020,938
Contract, Services and Other		[illegible]	908,413	446,706	437,686	938,529	87,400	**3,886,633**	4,264,560
Capital Outlay and Equipment								**10,000**	141,884
Other Outgo		[illegible]	0	0	100,512	(94,244)	0	**14,331**	38,093
Total Expenditures		**3,061,507**	**3,773,770**	**818,335**	**3,345,208**	**3,408,037**	**411,600**	**31,480,352**	**32,599,407**
Interfund Transfers to Other Funds									
To Cafeteria Fund						25,000		**25,000**	57,306
To Deferred Maintenance Fund						157,402		**157,402**	130,000
Total Expenditures		**3,061,507**	**3,773,770**	**818,335**	**3,345,208**	**3,590,439**	**411,600**	**31,662,754**	**32,186,713**

Using object code categories ties this report to the overall district budget.

Subtotals for personnel costs include benefits.

A comparison over time shows budget cuts.

tures in a general category, such as the professional development of teachers or district office support services. These reports make it possible to examine the amount of categorical funding, detail how the funds are used, and describe the full investment a district is making, including any encroachment on unrestricted funds.

SACS also makes it possible to look at the manner in which a particular type of service is being distributed. For example, a report about student support services, such as counselors and school psychologists, could illuminate which schools are receiving the largest share of these services. Tracking these expenditures over time might show how the district's investments have changed. Correlating those changes with behavior records, test scores, and other measures could show a relationship between the level of support services and student performance.

The development and analysis of detailed financial reports can help a district more readily estimate the total cost of its various activities and programs. This can then be compared to what the district has decided is most important—whether that is improving reading instruction in the early grades, addressing the achievement gap with English learners, or improving the percentage of students completing college preparatory courses. Is the level of funding consistent with district priorities? What other, lower-priority efforts might the district be able to reduce or eliminate in order to make more resources available? What would an expansion of a current high-priority program really cost?

Site-level budgeting and reporting can provide valuable insights

While the state requires districts to have a place for site-level information in their financial data under the SACS system, it does not require them to compile or report expenditures by individual school. Many experts, however, believe that school-level data is an essential part of a complete budget report because it provides information about expenditures at the point where they most directly affect students—at the school site.

The audiences for school-level budget information can be quite diverse. New parents may most appreciate a straightforward visual presentation that provides basic summary information. Staff will likely be interested in the level of district resources the school receives based on student needs and in comparison to other schools. District officials, including the school board, benefit from the most robust and nuanced information, including comparisons. They also need to be able to provide clear data to the media and to those staff—and community and parent advocates—interested in broad districtwide issues of accountability, equity, and funding adequacy.

School budget reports come in many shapes and sizes

When they are available, school-level budgets take many different forms. The most comprehensive ones report the cost of every district resource that goes to the school, including the actual salaries and benefits of all staff; the value of shared resources, such as district office business and maintenance services; and site-level discretionary budgets, such as Title I funds, grants, and supplies.

Some districts only provide school budgets that report on the expenditures over which the site has discretion. Others will summarize the amount of discretionary funds and perhaps compare what various schools receive, but they will not describe how the sites spent the money. In many districts, the reports combine financial information with student demographics to help put categorical funding for specific populations—such as Special Education and Title I—into perspective. In a few districts, reports also include performance information.

Concerns about equity among schools may prompt more robust reporting

Both the state and federal governments have begun holding districts and schools accountable for improving student performance. Critical to meeting this expectation is their ability to narrow the achievement gap by focusing on the academic improvement of the lowest-performing students. Students from low-income families and those who need to learn English are statistically more likely to be in this group. Districts have data that show the concentration of these students in each school.

Helping these students achieve more will require that they receive additional services targeted to their educational needs. It would follow that schools serving high concentrations of disadvantaged students will need to receive the personnel and materials necessary to provide those services if student performance is to improve.

However, public education has come under increasing fire for not providing even basic resources at some of the schools that serve the most disadvantaged students. In California, a lawsuit charging that this was the state's responsibility was

Illustration #6: Sample School District

2005–06 Elementary Schools Budget

Enrollment		School X		School Y		School Z
Regular Education		368		379		307
Special Education Day Class		21				12
English Proficiency		145		102		27
Total Enrollment		**534**		**481**		**346**
School Budget	**FTE**	**BUDGET**	**FTE**	**BUDGET**	**FTE**	**BUDGET**
Teachers						
Regular Education	23.40	1,253,749	22.40	1,200,170	14.80	792,969
Other	3.00	160,737	1.00	53,579	2.00	107,158
Subs/ Temps		27,734		24,101		17,450
Librarians						
Counselors/Guidance						
Principals/Vice Principals	1.00	85,826	1.00	85,826	1.00	85,826
Clerical	1.38	43,763	1.50	48,808	1.44	45,357
Instructional Aides	2.63	67,597	0.63	15,731	2.13	54,922
Other Classified						
Campus/Noon Duty Monitors	0.75	6,723	0.56	5,043	0.75	6,762
Operations, Other	2.00	58,657	2.00	56,924	2.00	58,455
Employee Benefits		492,990		422,910		343,174
Instructional Materials/Supplies		27,400		19,072		10,800
Services/ Other Operating Expenses		60,080		51,634		43,681
Capital Outlay		3,000				
Subtotal Expenditures		**2,288,256**		**1,983,798**		**1,566,554**
Weighted Student Formula		**2,226,426**		**1,847,990**		**1,541,163**
Estimated Additional Enrollment	**21.00**	**(61,830)**	**46.00**	**(135,808)**	**9.00**	**(25,391)**
Other Resources						
Title I		197,955		124,248		102,768
State Compensatory Education						
School Improvement Program		45,623		41,327		28,353
Bilingual		39,778		23,704		7,629
Total Budget & Resources		**2,571,612**		**2,173,077**		**1,705,304**

Enrollment and number of personnel help describe each school.

Salary allocations are based on district averages.

Allocations from categorical funds

settled out of court in 2004. The settlement calls for additional oversight of school districts to ensure that the state's lowest-performing schools have safe facilities, qualified teachers, and sufficient textbooks.

Site-level budgets may be a critical component in districts' ability to prove that they are meeting these new state expectations. At a broader level, they are the only way districts can evaluate how equitably they are distributing resources and either prove that schools are being treated fairly or make changes to ensure that they are.

But some district accounting practices can obscure rather than illuminate these concerns. For example, rather than providing actual salary data, many districts prepare school budgets that give costs based on multiplying the number of teachers and other staff by the average salaries in the district. Some financial experts question this practice, particularly as it relates to teachers. Counting every teacher as an equal resource can mask substantial differences in the total staffing cost at different schools, which would be an indicator of teacher experience and qualifications. For greater clarity about teacher qualifications, some reformers advocate showing the amount of funding allocated to schools based on actual salaries rather than averages.

The importance of site-level discretion is a matter of opinion

Some observers believe that school site leaders need more control over expenditures so that they can better address the specific needs of their students and thus improve school performance. Others say that district, state, and federal policymakers have an obligation to ensure that all schools operate at an optimum level and should control the distribution of resources to better achieve that goal.

In California and throughout the country, new accountability systems make individual schools responsible for their success in improving student performance. Yet for the most part, school districts decide how much control schools have over the resources they receive.

Schools that participate in selected state and federal programs control at least a portion of their budget. In return for that, they must complete a planning process called the "Single Plan for Student Achievement." Its stated purpose is to improve the academic performance of all pupils, as measured by the state's standardized tests. This planning process has taken the place of earlier approaches to site-level improvement planning in California, most notably the model previously required by the state's School Improvement Program.

The Single Plan is to be developed by a school site council made up of the principal, staff, parents, and community members (with representatives of the latter two groups selected by their peers). It addresses how the particular categorical funds will be used, but it does not necessarily look at the entire budget for a school. The district is expected to not only pass the funds through to the school, but also to review and approve the plans.

Trend reports confirm and improve the validity of budget assumptions

The budget development process leans heavily on assumptions about a district's students, revenues, and expenses. Examining trend reports can help improve the validity of these assumptions. By looking over district budgets for several years, it is possible to identify patterns and past errors in

prediction. Is ADA consistently underestimated or overestimated? Has the district regularly projected less for utilities than it has spent? Are expenditures for health care benefits growing at a faster rate than anticipated?

A sense of a district's financial history—combined with an informed look at the future—can also help make the opportunities for flexibility and new programs clearer. For example, a district may see substantial changes in its staffing needs and categorical income as its student population gets older. On one hand, fewer students will be in subsidized small classes. On the other hand, more will be in high schools, which are traditionally more expensive to operate. How might that demographic change affect the district's revenues and its expenditures? Will it require a realignment of priorities that could have far-reaching effects?

Financial forecasting—essential to building and managing school district budgets—is increasingly required by the state as well. Collecting data and developing assumptions are both important steps in being able to make financial projections. Using computerized accounting systems and SACS data, district staff can develop "what if" scenarios that attach costs to such proposals as program changes and salary increases. This can help district officials weigh their options with a clearer picture of the fiscal impacts.

Getting beyond the complexities promotes better use of information

California's school finance system is undeniably complicated. The challenge of just complying with state regulations for financial accounting and reporting is substantial. Yet such compliance is just the first step in budgeting.

Districts that are committed to improving student performance use financial information to facilitate their objectives. They make sure that they are funding the programs and priorities they believe are most important. They tie their expenditures to student and school information about demographics and performance in order to evaluate their "return on investment." And they produce budget documents that illuminate their choices and their challenges, thus building public understanding and support.

Such sophisticated budget reporting may challenge the abilities of district office staff in some school districts. In others, it may reveal problems with the status quo that could cause dissension among staff, community members, or the school board. Ultimately, however, it can be instrumental in ensuring that public schools fulfill their responsibilities to students and taxpayers.

Free software helps make user-friendly budgets easier to develop

Part of making any budget document helpful to the general public is to also provide background information that puts the information into context. For example, an explanation of a program's function and objectives should accompany a program budget. Easy-to-read charts and graphs are also important.

Free budget software available to all California school districts provides examples of effective district, program, and school site budgets, templates for producing these types of reports, and suggested text for many of the reports, including programs common to most districts.

User-Friendly Budgets is available free from School Services of California through a grant from the Fiscal Crisis and Management Assistance Team (FCMAT) and the Girard Foundation. The CD-ROM includes both software templates and a wide variety of samples from districts throughout the state that have used the templates to present budget information.

Information about getting this software is available at: www.sscal.com/ufb.htm

To Learn More

These resources can supplement the information in district budgets and help school board members and the public develop a more sophisticated approach to budget evaluation and analysis.

- The Education Data Partnership website at www.ed-data.k12.ca.us provides fiscal data for every district back to 1992–93. It also makes possible "apples to apples" comparisons of district financial statistics, student demographics, teacher salaries, and student performance.
- The Annenberg Institute's School Communities That Work project at www.schoolcommunities.org provides tools that districts can use to examine their school-level allocations more systematically.
- The Fiscal Crisis and Management Assistance Team (FCMAT) at www.fcmat.org has a wealth of resources to help districts with their financial management.
- School board members in districts affiliated with the California School Boards Association (CSBA) can attend Masters in Governance workshops that include a comprehensive session on school finance. Information is available at: www.csba.org
- EdSource offers a large number of full-length reports and shorter publications on school finance, accountability and assessment, and other key education issues. In addition, we maintain a robust website with data, background information, and news on California education policy: www.edsource.org

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