# 2. Budgeting

# Update 14

**A MODULE OF THE**

# TEXAS EDUCATION AGENCY
# FINANCIAL ACCOUNTABILITY SYSTEM
# RESOURCE GUIDE

**Published by**

**Texas Education Agency**
**Austin, Texas**
**January 2010**

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## 2.1 Preface

Budgeting is the process of allocating resources to the prioritized needs of a school district. Although budget formats and policies are by no means uniform in school districts, formal budgets play a far more important role in the planning, control and evaluation of school district operations than in those of privately owned organizations. In school districts, the adoption of a budget implies that a set of decisions have been made by school board members and school district administrators which culminate in matching a school district's resources with its needs. As such, the budget is a product of the planning process. The budget also provides an important tool for the control and evaluation of a school district's sources and uses of resources. With the assistance of the accounting system, administrators are able to execute and control the activities that have been authorized by the budget and evaluate performance based upon comparisons between budgeted and actual operations.

A challenge for school officials is the appropriate identification of the "problem(s)" to be addressed when developing a budget and making decisions about staffing and financial allocations. Herbert Simon, author of many books on public administration, like *Administrative Behavior: A Study of Decision-Making Processes in Administrative Organizations*, explains that decision-making processes are facilitated when based upon a rigorous review of data and information, similar to activities involving engineering and scientific processes. Decisions about personnel management issues and financial allocations should be based upon data or evidence relating to the academic performance of students and the effectiveness of academic programs, in addition to data explaining relative operating efficiencies of all instructional support and administrative functions. It is necessary to make comparisons between districts and campuses that have similar characteristics to obtain useful information about potential management issues. Software applications that benchmark academic and performance statistics are available from various sources. Decision making processes in school districts are complex, and administrative and governance decisions are not effective if the "problem(s)" is (are) not adequately identified before making decisions about resource allocations.

Importance is placed upon sound budget planning for the following reasons:

- The type, quantity, and quality of school district goods and services often are not subject to the market forces of supply and demand. The budget becomes the limiting force.

- These goods and services (e.g. instruction) are critical to the public interest.

- The scope and diversity of school district operations make comprehensive planning necessary for good decision making.

- Planning is a process that is critical to the expression of citizen preferences and through which consensus is reached among citizens, school board members, and district/campus staff on the future direction of a district's operations.

The link between planning and budget preparation in school districts gives budgets a unique role in these organizations. Budgets in the public arena are often considered the ultimate policy document since they are the financial plan a school district uses to achieve its goals and objectives reflecting:

- Public choices about what goods and services the district will and will not produce.

- School districts' priorities among the wide range of activities in which they are involved.

- Relative weight given to the influence of various participants and interest groups in the budget development process.

- How a school district has acquired and used its resources.

The budget, itself, then becomes intrinsically a political document reflecting school district administrators' accountability for fiduciary responsibility to citizens.

In the educational context, budgeting is a valuable tool in both planning and evaluation processes. Budgeting provides a vehicle for translating educational goals and programs into financial resource plans. Thus, instruction planning (to attain student educational goals) should determine budgetary allocations. This link between instruction and financial planning is critical to effective budgeting. In addition, such a budgeting practice may enhance the evaluation of budgetary and educational performance since resource allocations are closely associated with instructional plans.

# 2.2 Objectives of Budgeting

Performance evaluation allows citizens and taxpayers to hold policy makers and administrators accountable for their actions. Because accountability to citizens often is stated explicitly in state laws and constitutions, it is considered a cornerstone of budgeting and financial reporting. The Governmental Accounting Standards Board (GASB) recognizes its importance with these objectives in its *GASB Concepts Statement No. 1*:

- Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services.

- Financial reporting should demonstrate whether resources were obtained and used in accordance with the entity's legally adopted budget. It should also demonstrate compliance with other finance-related legal or contractual requirements.

- Financial reporting should provide information to assist users in assessing the service efforts, costs and accomplishments of the governmental entity.

Meeting these objectives requires budget preparation to include several concepts recognizing accountability. Often these concepts have been mandated for state and local public sector budgets. They include requirements that budgets should:

- Be balanced so that current revenues are sufficient to pay for current services.

- Be prepared in accordance with all applicable federal, state, and local legal mandates and requirements.

- Provide a basis for the evaluation of a government's service efforts, costs and accomplishments.

Note: Although the objective of balanced budgets is generally applicable to all school districts to ensure long-term fiscal health, variations of this objective which are considered appropriate for some school districts over short-term periods are available. For example, the balanced budget objective may be met through the use of fund balance reserves to pay for current services during certain periods. Such uses of fund balance reserves must be in accordance with applicable state and local fund balance policies.

# 2.3 Budget Process Overview

The budgeting process is comprised of three major phases: planning, preparation and evaluation. The budgetary process begins with sound planning. Planning defines the goals and objectives of campuses and the school district and develops programs to attain those goals and objectives. Once these programs and plans have been established, budgetary resource allocations are made to support them. Budgetary resource allocations are the preparation phase of budgeting. The allocations cannot be made, however, until plans and programs have been established.

Finally, the budget is evaluated for its effectiveness in attaining goals and objectives. Evaluation typically involves an examination of how funds were expended, what outcomes resulted from the expenditure of funds, and to what degree these outcomes achieved the objectives stated during the planning phase. This evaluation phase is important in determining the following year's budgetary allocations. In summary, budget preparation is not a one-time exercise to determine how a school district will allocate funds. Rather, school district budget preparation is part of a continuous cycle of planning and evaluation to achieve district goals.

# 2.4 Budgetary Approaches

Over the past thirty years, a variety of budget types and formats have been utilized by school districts in the U.S. The development of more advanced budget philosophies reflects growth in both the scope and complexity of government operations and the need for systems which are capable of translating the variety of policy decisions into financial plans. Those currently being used by school districts are: (1) Line-item or "traditional" budgeting, (2) Performance budgeting, (3) Program and Planning, "programming" budgeting (PPB), (4) Zero-base budgeting (ZBB) and (5) Site-based budgeting.

A single budgetary approach may be effective; however, many governments use a variety of hybridized versions of the four basic ones depending on their needs. Each of the five basic approaches has relative advantages and limitations.

## 2.4.1 Line-Item Budgeting

The line-item format is the most widely utilized approach to budgeting because of its simplicity and control orientation. This approach is referred to as the "historical" approach since administrators and chief executives often base their expenditure requests upon historical expenditure and revenue data. For example, the budget request for a school library may be based upon its prior year's budget appropriation plus/minus 5 percent for increased/decreased costs.

Basically, the development process is comprised of three stages:

- First, individual schools and central administrative departments submit budget requests to the chief executive officer in terms of the type of expenditures to be made. These expenditures are classified into categories such as salaries and wages, supplies, utilities, and equipment.

- Next, the chief executive officer compiles all the requests and submits a summary request to the school board in line-item format.

- Finally, the school board reviews the budget request, makes revisions, and appropriates funds for *line-item* expenditures.

### 2.4.1.1 A Double-Edged Sword

An advantage to line-item budgeting is that it offers school boards and school district administration a high degree of control over the use of district resources. If a district chooses this budgetary approach, the school board legally must adopt the annual budget at the fund and function level at a minimum. When line-item appropriations are made, funds may be used for only those line-items specified and up to those amounts. As such, appropriated funds for supplies may not be diverted to purchase equipment unless a budget amendment is submitted to and approved by the school board. The level of detail used by the school board determines the level of flexibility granted to the chief executive in budget administration. For example, in a school district, if appropriations are made district-wide at the function level, a superintendent might shift funds between individual schools or object categories during the year (although only within function categories).

In contrast, this approach has limitations when appropriations are made at the school level. Funds cannot be redistributed among schools without approved budget amendments. This aspect of control by the school board can be a double-edged sword. While it does afford a strong control environment, it may hamper the efforts of the superintendent to manage district operations effectively. The frequent use of budget amendments to correct this problem may become an administrative burden for administrators as well as a hindrance to the consideration of ongoing policy issues by the school board.

### 2.4.1.2 Advantages

The line-item budget format has several advantages which account for its wide use. First, this format offers simplicity, ease of preparation, and recognition by all involved in the budget development process. Second, budgeting by organizational unit and object is consistent with the lines of authority and responsibility in organizational units. Thus, this approach enhances organizational control and allows for the accumulation of expenditure data at each functional level. Finally, this approach allows for the accumulation of expenditure data by organizational unit for use in trend or historical analysis.

### 2.4.1.3 Disadvantages

Although this approach offers substantial advantages, critics of this approach have identified several shortcomings which may make it inappropriate for certain organizational environments. The most severe criticism of this approach is that it presents little useful information to decision makers on the functions and activities of organizational units. Since this budget presents proposed expenditure amounts only by category, the justifications for such expenditures are not explicit. In addition, this approach may invite micro-management of expenditures by district administrators and school boards as they

attempt to manage district operations with little or no performance information. The consequences of the disadvantages for school districts are:

- An inordinate amount of attention may be given to short-term resource allocations ignoring the long-term strategic goals and objectives of the school district.

- Planning may be neglected if the focus is on historical activities and costs.

- Spending, rather than economizing, may actually be encouraged as administrators feel compelled to spend all appropriated amounts to "protect" future years' budget allocations.

To overcome the limitations, line-item budgets can be augmented with supplemental program and performance information, a practice that is recommended.

## 2.4.2 Performance Budgeting

Performance budgeting has been utilized since 1949 when it was promoted by the Hoover Commission. The focus of this approach is on efficiency (based on the measurement of the costs and standard process inputs), and the budget is considered a "performance contract" between the superintendent and the school board.

In a strict performance budgeting environment, budgeted expenditures are based upon standard costs inputs multiplied by the number of units of an activity to be provided in that period. The total budget for an organization is the sum of all the standard unit costs multiplied by the expected units to be provided. For example, the budget for a school cafeteria might be developed based on the number of meals that are to be produced multiplied by the average cost of producing a meal. Although this strict approach may be useful for certain types of school operations, many operations may require a more liberal performance approach. For example, expenditures may be based simply on the activities/levels of service to be provided and a comparison of budgeted amounts and historical expenditure levels rather than average unit costs.

The performance approach is considered a superior approach to the line-item approach because it provides more useful information for legislative consideration and a clearer basis for the evaluation of administrators. Further, the performance approach is advantageous because it includes narrative descriptions of each program or activity; it organizes the budget into quantitative estimates of costs and accomplishments; and it focuses on

outcomes and accomplishments. Finally, the performance approach eases legislative budget revisions since program activities/levels of service may be budgeted based upon standard cost inputs.

Performance budgeting does have limitations because of the lack of reliable standard cost information in governmental organizations. Because full cost data and standard units are often beyond the scope of many accounting systems, historical expenditure data (which may distort true costs) is often substituted by administrators during budget preparation. Further, the performance approach does not necessarily evaluate how appropriate program activities are in reaching a school district's goals or the quality of services/outputs produced. Consequently, the performance approach has become most useful for activities which are routine in nature and discretely measurable (such as vehicle maintenance and accounts payable processing) and may offer considerable enhancement to the line-item budget when appropriately applied.

## 2.4.3 Program and Planning-Programming Budgeting

Program and planning-programming budgeting (PPB), as it is often called, is an approach which has been utilized since the 1960's. Program budgeting is used to refer to a variety of different budgeting systems which base expenditures primarily on programs of work and secondarily on objects. It is considered a transitional form between traditional line-item and performance approaches, and may be termed *modified program* budgeting.

In contrast, a *full program* budget bases expenditures solely on programs of work regardless of objects or organizational units. As these two variations attest, program budgeting is applied to school districts in a variety of ways depending on organizational needs and administrative capabilities.

Program budgeting differs from approaches previously discussed because it is much less control and evaluation oriented. Budget requests and reports are summarized in terms of a few broad programs rather than in the great detail of *line-item* expenditures or organizational units. PPB systems place a great deal of emphasis on identifying the fundamental objectives of a governmental entity and on relating all program expenditures to these activities. This conceptual framework includes the practices of explicitly projecting long-term costs of programs and the evaluation of different program alternatives that may be used to attain long-term goals and objectives. The focus on long-range planning is the major advantage of this approach, and advocates believe that school districts are more likely to reach their stated goals and objectives if this approach is used to develop their budgets. Several limitations of the PPB approach have also been identified:

- Consensus on the fundamental objectives of a governmental entity is difficult to reach.

- Goals and elected officials change, thwarting the long-term focus of PPB.

- PPB, like performance budgeting, assumes adequate program and cost data; and high levels of analytical ability among administrators are needed for its implementation.

- The development of long-term cost/benefit projections and program alternatives are difficult and expensive undertakings.

- Program budgetary approaches may be anathema to the line-item focus of many board members and district administrators. It also may be interpreted as a threat to traditional board expenditure control.

- Program budgets may be difficult to administer since many programs and their related expenditures cut across organizational units. Thus, PPB may cause problems in controlling expenditures and responsibility accounting.

Despite its limitations, program budgeting is often used as a planning device while budget allocations continue to be made in terms of objects and organizational units. As with performance budgeting, PPB information may be used to supplement and support traditional budgets increasing their informational value.

## 2.4.4 Zero-Base Budgeting

Zero-base budgeting (ZBB) popularized in the 1970s by the Carter administration is one of the newest budgetary approaches. The basic tenet of ZBB is that program activities and services must be justified annually during the budget development process. The budget is prepared by dividing all of a government's operations into *decision units* at relatively low levels of the organization. Individual decision units are then aggregated into *decision packages* based upon program activities, program goals, organizational units, etc. Costs of goods or services are attached to each decision package on the basis of the level of production or service to be provided to produce defined outputs or outcomes. Decision units are finally ranked as to their importance in reaching organizational goals and objectives.

As the proposed budget moves through each level of the organization, decision packages are aggregated further and ranked again. The final budget produced by the chief executive officer is one which includes all program activities ranked in order of their importance to reaching organizational goals and objectives. When the school board considers the preliminary district budget, the board is presented a series of ranked budget decisions which are tied to the attainment of the district's goals and objectives.

The central thrust of ZBB is the elimination of outdated efforts and expenditures and concentration of resources where they are most effective, all achieved by an annual review of all program activities and expenditures. The information provided by ZBB offers administrators and legislative bodies better information for allocation decisions. It does, however, require a great deal of staff time, planning, and paperwork to be worthwhile.

Implementation of this approach by school districts and other governments has shown that full review of ZBB decision packages for some program activities may be appropriate only on a periodic basis. In addition, state and federal legislation may mandate a minimum level of service for certain programs regardless of other district needs. Because it requires an evaluation of all program activities, the ZBB approach has been particularly useful when overall spending must be reduced.

## 2.4.5 Site-Based Budgeting

In recent years, educational leaders have sought to enhance the ability of principals to serve as effective instructional leaders. This effort has led to the development of a budgetary approach (which may be used in combination with any of the four discussed above) which emphasizes the decentralization of budgetary decision making, broadly referred to as site-based budgeting. Site-based budgeting places the principal and other campus staff at the center of the budget preparation process. Principals act as budget managers for their individual schools, responsible for both the preparation and maintenance of the campus budget.

Site-based budgeting, as its name implies, generally involves the granting of increased budgetary authority to the campus level. Campuses are normally allocated a certain level of resources over which they have authority to allocate to educational and support services. These budgetary allocations are meant to cover those areas over which campus decision-makers have control. For example, campuses which have authority over staffing decisions would be allocated funds for staff costs. In contrast, campuses in a school district where staffing decisions are made centrally may not be granted funds for staff costs. These staff costs would be budgeted at the district level. As shown by this example, site-based budgeting takes many forms and may be implemented by school districts to varying degrees.

The main advantage of site-based budgeting is that it allows school personnel to make budgetary decisions for their own campuses. Thus, those who best understand student needs at the campus level plan how funds are used to meet them. This decentralization of budgetary authority may also be a means of increasing school accountability. Another potential advantage of site-based budgeting is increasing the level of participation of both campus staff and parents in budget development. Many site-based budgeting systems create committees composed of campus staff, parents, and other community members to determine campus budgetary allocations. These committees give parents and other community members a voice in school budgeting from its inception, rather than merely when the budget is presented for public review by the district board.

Although site-based budgeting may provide substantial benefits for school districts, it also has limitations. First, school districts which have limited resources may not be capable of granting a meaningful level of budgetary authority to campuses. Even if a school district does have discretionary resources over which campuses are granted control, it may be difficult to determine the areas of the budget for which campus decision-makers should be held accountable. For example, if a campus must purchase student transportation services from a district transportation pool, should a principal be held accountable for the cost of student transportation? Finally, site-based budgeting may be burdensome to principals and other campus staff, increase conflict between teachers and/or departments, and/or limit a district's ability to ensure educational quality and equality. These problems may be avoided somewhat through the careful design of site-based budgeting guidelines and through training for new budget stakeholders. (For related discussions, see the Site-Based Decision Making module in this *Resource Guide)*

# 2.5 Outcome-Focused Budgeting

Consistent with the evaluation objective of government budgeting, school district budgeting is becoming increasingly outcome focused. Fiscal austerity coupled with intense competition for government resources has precipitated an effort to ensure more effective use of resources at all levels of government. Outcome-focused budgeting is the practice of linking the allocation of resources to the production of outcomes. The objective is to allocate government resources to those service providers or programs which use them most effectively.

Outcome-focused budgeting is closely linked to the planning process in governments. For a government entity to focus on outcomes, it must first have identified what goals and objectives it needs to attain and then tie budget allocations to the achievement of those objectives. This very premise is the one which David Osborne and Ted Gaebler discuss in their book, *Reinventing Government, How the Entrepreneurial Spirit is Transforming the Public Sector*, arguing that mission-driven (synonymous with outcome-focused) governments are superior to those which are rule-driven. They identify the following five advantages of this type of organization:[1]

- They are more efficient.
- They are more effective in producing results.
- They are more innovative.
- They are more flexible.
- They have higher morale.

In summary, mission-driven governments are generally regarded as more effective in reaching their objectives because their objectives are the core around which they organize and operate. Transforming budgets to mission-driven ones requires measuring the effectiveness of government programs in producing outcomes and allocating future resources based upon levels of performance.

[1]Reading, Mass.: Addison-Wesley Publishing, 1992: 113-114.

## 2.5.1 Service Efforts and Accomplishments Indicators

In November 2008, GASB issued Concepts Statement No. 5, Service Efforts and Accomplishment Reporting, which modified Concepts Statement No. 2, which was issued in 1994. Concepts Statement No. 5 is meant to provide a framework to be used by GASB in considering guidance for reporting SEA by state and local governmental entities. It does not establish SEA reporting requirements, but describes why it may assist users in assessing accountability and making better informed decisions.

The process of developing these outcome measures has been addressed by GASB Research Report: *Service Efforts and Accomplishments* (SEA) *Reporting.* This report responds to the financial reporting objective to "assist users in assessing the service efforts, costs, and accomplishments of the governmental entity."[2] It is also directly related to a government's responsibility to be publicly accountable for the results of its operations. The report outlines five major categories of SEA indicators which governments use in budgeting and results reporting:

- Input indicators report the resources that have been used for a specific service or program. An example is the number of teachers in a primary school.

- Output indicators report the units produced or services provided by a given service provider or program. An example is the number of students who graduate from a secondary school.

- Outcome indicators report the results, including quality, of a service or program. An example is the change in student test scores resulting from instructional programs.

- Efficiency (and cost-effectiveness) indicators report the cost (or inputs) per unit of output or outcome. An example is the cost per graduated student in a secondary school.

- Explanatory information may include a variety of factors which influence an organization's performance and SEA indicators. An example is the average income level of the families of students.

Although the use of SEA indicators in governmental budgeting and financial reporting may significantly enhance the value of these documents, their use must be balanced with other concerns. First, the issue of which measures of performance best capture a service effort or

[2]GASB Research Report: *Service Efforts and Accomplishments Reporting: Its Time has Come*, Stamford, Ct: Governmental Accounting Standards Board, 1990: 2.

program's effectiveness is one which is debatable for almost any government activity and may be addressed by providing a variety of indicators with appropriate explanatory information. In addition, the development of SEA indicators should be an incremental process which involves legislative bodies, administrators, and citizens.

Second, the cost of generating and gathering data to provide SEA information must be considered in the development of these measures. Many data sources for SEA indicators may be readily available in a school's current reporting to state or local authorities, such as PEIMS data; other data may not. The costs of creating new information reporting should be balanced with the needs for additional SEA indicators.

A variety of SEA indicators which the GASB has found used in primary and secondary educational budgeting and financial reporting is shown in. This list is certainly not exhaustive, but it does provide useful examples of possible SEA indicators for those schools or districts which may be initially developing SEA measures.

**Exhibit 1. Recommended SEA (Service Efforts and Accomplishments) Indicators for Elementary and Secondary Education**
**Source: Governmental Accounting Standards Board**

| Type | Indicator | Rationale for Selecting Indicator |
|---|---|---|
| Inputs: | | |
| | Expenditures (may also be broken out by type of activity such as instructional and administrative)<br>• Current dollars<br>• Constant dollars | To provide a measure of resources used to provide services |
| | Total number of personnel | To provide a measure of the size of the organization |
| Outputs: | | |
| | Number of student-days (thousands) | To provide a general measure of workload |
| | Number of students promoted/graduated | To provide a measure of students satisfactorily completing educational requirements |
| | Carnegie units as a percentage of required (with number of required units shown parenthetically) | To provide an indication of courses taken by students in certain critical subject areas |
| | Absenteeism rate | To provide a measure of student participation in classes and an indication of their interest in learning |
| | Dropout rate | To indicate the school's success in keeping students actively involved in the learning process |
| Outcomes: | | |
| | Test score results - for each major subject area<br>• Average percentile on standardized test<br>• Percentage of students above the tests' 50th percentile<br>• Percentage of students reaching their grade level of proficiency or higher | To provide measures of student achievement in academic subjects and a comparison with expected achievement and established norms |
| | Percentage of students achieving grade level on achievement test (may be presented for major subject areas as well | To provide a measure of student annual progress - the indicator is also used to develop a measure of cost-effectiveness |

| Type | Indicator | Rationale for Selecting Indicator |
|---|---|---|
| | as overall)<br>Percentage of students scoring higher than prespecified level of self-esteem | To provide an indication of the development of noncognitive skills and abilities generally considered as objectives of formal education |
| | Percentage of students achieving specified physical fitness test standards | Same |
| | Percentage of graduates gainfully employed or continuing education two years after graduation | To provide an indication of the school system's results in preparing graduates for further education or workforce participation |
| | Percentage of students rating as good, excellent, of improved - their own:<br>• Work and study skills<br>• Self-discipline<br>• Interpersonal skills<br>• Knowledge gained | To provide measures of students' perceptions of their acquisition of knowledge and selected noncognitive skills and behavior |
| | Percentage of parents rating their children good, excellent, or improved in:<br>• Work and study skills<br>• Self-discipline<br>• Interpersonal skills<br>• Knowledge gained | To provide measures of parents' perceptions of their child's acquisition of knowledge and selected noncognitive skills and behavior; to allow comparison with student perceptions; to indicate the school system's contribution to the acquisition of these skills and behavior |
| Efficiency: | Cost per unit of output<br>• Per student-day<br>• Per student promoted/graduated | To provide an indication of the school system's "technical" efficiency of operation |
| | Cost per unit of outcome<br>Per student achieving grade-level score gain or target level for an outcome | To provide an indication of the school system's "true" efficiency in achieving student outcomes |
| Explanatory Information: | Controllable:<br>Average number of hours per student | See subsequent rationale |

| Type | Indicator | Rationale for Selecting Indicator |
|---|---|---|
| | in oversized classes (per day)<br>Not controllable:<br>• Average daily attendance<br>• Percentage of minority students<br>• Percentage of students participating in subsidized lunch or other welfare programs<br>• Percentage of students needing special remedial programs<br>• Student mobility rate<br>• Percentage of students with English as a second language<br>• Student enrollments | To provide information on factors that are likely to have some effect on student achievement and that can be important in understanding performance indicated by SEA indicators |

# 2.6 Legal Requirements for Budgets

Legal requirements for school district budgets are formulated by the state, TEA, and the local district. In addition to these requirements, individual school districts also may have their own legal requirements for budget preparation. Additional legal requirements also may be imposed by state and federal grants; however, this section deals only with *state legal mandates, TEA legal requirements and local district requirements* for basic budget development and submission.

## 2.6.1 Statement of Texas Law

Sections 44.002 through 44.006 of the *Texas Education Code* establish the legal basis for budget development in school districts. The following six items summarize the legal requirements from the code:

- The superintendent is the budget officer for the district and prepares or causes the budget to be prepared.

Note: TEA recommends that an *interactive* approach between the board of trustees and the superintendent be taken to establish the budget process and define related roles and responsibilities.

- The district budget must be prepared by a date set by the state board of education, currently August 31 (June 30 if the district uses a July 1 fiscal year start date). In order for the budget to be adopted by the board of trustees, inclusive of amendments, the district budget must be prepared by August 20 (June 19 if the district uses a July 1 fiscal year start date).

- The president of the board of trustees must call a public meeting of the board of trustees, giving ten days public notice in a newspaper, for the adoption of the district budget. Any taxpayer in the district may be present and participate in the meeting.

- Concurrently with the publication of notice of the budget above, a school district must post a summary of the proposed budget on the school district's Internet website or in the district's central administrative office if the school district has no Internet website. The budget summary must include a comparison to the previous year's actual spending and information relating to per-student and aggregate spending on instruction, instructional support, central administration, district operations, debt service, and any other category designated by the commissioner. (Section 44.0041, TEC).

  The summary of the budget should be presented in the following function areas:

  (A) Instruction – functions 11, 12, 13, 95

  (B) Instructional Support – functions 21, 23, 31, 32, 33, 36

  (C) Central Administration – function 41

  (D) District Operations – functions 51, 52, 53, 34, 35

  (E) Debt Service – function 71

  (F) Other – functions 61, 81, 91, 92, 93, 97, 99

  The "per student" will be based on student enrollment.

- No funds may be expended in any manner other than as provided for in the adopted budget. The board does have the authority to amend the budget or adopt a supplementary emergency budget to cover unforeseen expenditures.

- The budget must be prepared in accordance with GAAP (generally accepted accounting principles) and state guidelines.

- The budget must be legally adopted before the adoption of the tax rate unless the district elects to adopt a tax rate before receiving the certified appraisal roll for the district as provided by Section 26.05(g), Tax Code (see the following point if the district elects to adopt the tax rate first). Additionally, a school district **must publish a revised notice and hold another public meeting before** the district **may adopt a tax rate** that exceeds the following: (1) The rate proposed in the notice prepared using the estimate; or (2) The district's rollback rate determined under Section 26.08, Tax Code, using the certified appraisal roll.

- If a school district elects to adopt a tax rate before adopting a budget, the district must publish notice and hold a meeting for the purpose of discussing the proposed tax rate as provided by TEC 44.004. Following adoption of the tax rate, the district must publish notice and hold another public meeting before the district may adopt a budget. The comptroller shall prescribe the language and format to be used in the notices. The school district may use the certified estimate of taxable value in preparing a notice.

- HB 3, 81st Regular Session, added TEC 39.084 which requires that on final approval of the budget by the school board, the school district shall post on the district's Internet website a copy of the adopted budget. The website must prominently display the electronic link to the adopted budget until the third anniversary of the date the budget was adopted.

## 2.6.2 TEA Legal Requirements

TEA has developed additional requirements for school district budget preparation as follows:

- The budget must be adopted by the board of trustees, inclusive of amendments, no later than August 31 (June 30 if the district uses a July 1 fiscal year start date). In order to

prepare the public notice to be published 10 days prior to the meeting, the district budget must be prepared by a date set by the state board of education, currently August 20 (June 19 if the district uses a July 1 fiscal year start date).

- Minutes from district board meetings will be used by TEA to record adoption of and amendments to the budget.

Budgets for the General Fund, the Food Service Fund (whether accounted for in the General Fund, a Special Revenue Fund or Enterprise Fund) and the Debt Service Fund must be included in the official district budget (legal or fiscal year basis). These budgets must be prepared and approved at least at the fund and function levels to comply with the state's legal level of control mandates. Funds to be budgeted and reported through PEIMS, both required and optional, are shown in Exhibit 2 in section 2.6.3.

Note: Districts may prepare and approve budgets for other funds and/or with even greater detail at their discretion. Such local decisions may affect the need for budget amendments and financial reporting requirements.

- The officially adopted district budget, as amended, must be filed with TEA through PEIMS (Public Education Information Management System) by the date prescribed in the annual system guidelines. Revenues, other sources, other uses, and fund balances must be reported by fund, object (at the fourth level), fiscal year, and amount. Expenditures must be reported by fund, function, object (at the second level), organization, fiscal year, program intent and amount. These requirements are discussed in further detail in the Data Collection and Reporting module.

- A school district must amend the official budget *before* exceeding a *functional expenditure category*, i.e., instruction, administration, etc., in the total district budget. The annual financial and compliance report should reflect the amended budget amounts on the schedule comparing budgeted and actual amounts. The requirement for filing the amended budget with TEA is satisfied when the school district files its Annual Financial and Compliance Report.

## 2.6.3 Local District Requirements

In addition to state legal requirements, individual school districts may establish their own requirements for annual budget preparation. Local fiscal policies may dictate budgetary requirements which go beyond those required by the *Texas Education Code* and TEA. These policies may include:

- Fund balance levels
- Debt service fund balance accumulation
- Investment requirements
- Property tax exemption parameters
- Financial performance comparison measures
- Staffing levels

**Exhibit 2. Legal Requirements for Funds to be Budgeted**

| Fund | Budgeted on an Annual Basis | Budgeted on a Multi-year Basis | Submitted to PEIMS |
|---|---|---|---|
| General | Required | Optional | Yes |
| Special Revenue | Optional | Required | No |
| Food Service * | Required | Optional | Yes |
| Capital Projects | Optional | Required | No |
| Debt Service ** | Required | Optional | Yes |
| Enterprise | Optional | Optional | No |
| Internal Service | Optional | Optional | No |
| Fiduciary | Optional | Optional | No |

* The Food Service Fund must be budgeted and submitted to PEIMS regardless of the type of fund used to account for school nutrition programs. A school district may account for these operations in a Special Revenue Fund, an Enterprise Fund, or within the General Fund. All expenditures in the Special Revenue Fund and/or Capital Projects Fund must be budgeted on a fiscal year basis (legal basis) if the district does not have a policy directing administration to adopt a budget in these areas on a project basis (except food service fund which is always budgeted on a fiscal year basis).

** Debt Service Fund budgets are required if there are any expenditures in Function 71, Debt Service.

# 2.7 Annual Budget Responsibilities and Guidelines

The development of campus and district annual budgets should be part of ongoing planning processes at those levels. The advent of site-based decision making, mandated by the state, has increased integration of planning and budgeting at the campus level; however, state guidance allows for considerable district autonomy in budget preparation. The organizational structure of a school district, the size and complexity of its administrative structure, the budgetary approach chosen, and the level of centralization in budget development all will affect the budget development process and the final budget document. Beyond the budgetary requirements for federal and state programs, a school district's budget preparation process and the related budget responsibilities largely will be determined by the school board and the district superintendent. The concept of site-based budgeting, endorsed by TEA, is the recommended approach outlined in this section.

## 2.7.1 Roles and Responsibilities

The budget preparation process and guidelines should be established through interaction between the school board and the superintendent. Thus, the delegation of budget responsibilities among district administrators (district-wide) and individual campuses (site-based) will reflect consensus of the school board and the superintendent.

Exhibit 3 is an example of site-based budgeting roles and responsibilities used by a Texas school district. This example includes the following individuals and groups which are involved in budget development:

- Campus Level:
  - Campus staff
  - Resource Planning Groups (RPG) (or equivalents) - Campus resource planning groups composed of campus staff and/or special program administrators (nominated by school principals)
  - Campus Improvement Committees (CICs) - Campus resource planning groups composed of elected campus staff, community members and parents
  - Principals (School Budget Managers)

- District Level:
  - Peer Review Committees (PRC) (or equivalents) - Budget review groups composed of director of curriculum and instruction and school principals and/or special program administrators
  - Budget Review Teams (BRTs)(or equivalents) - Budget review groups composed of some combination of key district office personnel
  - Special Program Administrators (or equivalents; may be at school level)
  - Director of Personnel/Human Resources (or equivalent)
  - Director of Curriculum and Instruction (or equivalent)
  - Assistant Superintendents of Administration and Finance/Business (or equivalents)
  - Superintendent
  - School Board

Individuals and groups serve in a variety of roles in the budget development process at both the campus and district levels (summarized in Exhibit 3). The individuals and groups named in this and subsequent sections will vary according to the titles and duties of positions in individual school districts. In addition, school districts may differ as to the

division of duties between district administrators and campuses. It is important, however, to define clearly this segregation for the budget development process to run smoothly. With the advent of site-based decision making, new individuals involved in budget development need clear direction to provide effective input.

Exhibit 3 shows the distinctions between those activities that are accomplished at the campus level and those at the district level.

**Exhibit 3. Budgetary Roles and Responsibilities**
**Source: Texas School District with ADA of 6500**

| Stakeholders | Roles/Responsibilities | Level |
|---|---|---|
| **Campus Staff** | • May serve as members of RPG | campus |
| | • Assists in the identification of non-allocated funding needs | campus |
| **Resource Planning Group (RPGs)** | • Develops goals and planning objectives for campus and its programs | campus |
| | • Establishes funding priorities for resource allocations and ensures consistency with campus improvement plans, instructional goals and objectives, and other planning needs | campus |
| | • Prepares preliminary campus budget and non-allocated funding requests for submission to PRCs | campus |
| **Campus Improvement Committees (CICs)** | • Provides advisory review of preliminary budget and non-allocated funding requests before submission to PRCs | campus |
| **Principals** | • Nominates members of RPG | campus |
| | • Acts as budget manager for school by scheduling, chairing, and maintaining records of RPG meetings | campus |
| | • Submits preliminary RPG budget and non-allocated requests to CIC for advisory review | campus |
| | • Evaluates staffing needs based upon enrollment projections and student course selections and submits recommended staffing plan to director of personnel | district |
| | • Serves as member of PRC | |
| **Peer Review Committees (PRCs)** | • Reviews for appropriateness campus level budgets and reviews/prioritizes non-allocated requests submitted by | district |

| Stakeholders | Roles/Responsibilities | Level |
|---|---|---|
| | PRCs | |
| | • Submits budget recommendations for BRT review | district |
| **Budget Review Teams (BRTs)** | • Reviews for appropriateness campus level budgets and reviews/prioritizes non-allocated requests submitted by PRCs | district |
| | • Submits budget recommendations for superintendent review | district |
| **Special Program Administrators** | • Coordinates the preparation of campus level special programs budgets (at RPG level) | district |
| **Director of Personnel** | • Compiles and reviews personnel staffing needs submitted by budget managers | district |
| | • May serve as member of BRT | district |
| **Director of Curriculum and Instruction** | • Chairs PRCs | district |
| | • May serve as member of BRT | district |
| **Assistant Superintendent of Finance/Business** | • Develops district revenue estimates | district |
| | • May serve as member of BRT | district |
| | • Serves as district budget officer in compiling all school budgets into proposed district budget and communicates any revisions to appropriate actors/bodies | district |
| | • Records results of BRT/superintendent reviews and provides requested forecasts, analyses, etc. to BRT/superintendent | district |
| **Assistant Superintendent of Administration** | • May serve as member of BRT | district |
| **Superintendent** | • Develops and communicates budget process guidelines and calendar to actors/groups | district |
| | • May serve as member of BRT | district |

| Stakeholders | Roles/Responsibilities | Level |
|---|---|---|
| **School Board** | • Conducts final review of proposed district budget | district |
| | • Submits proposed district budget to school board workshops/working sessions | district |
| | • Reviews/prioritizes/revises proposed budget submitted by superintendent and staff in workshops/working sessions | district |
| | • Conducts public hearings for budget consideration | district |
| | • Adopts official budget and tax rate | district |

## 2.7.2 Procedural Guidelines and Calendar

Responsibility for preparation of district budget guidelines and the budget calendar lies primarily with district administrators and the superintendent. Because these guidelines and the calendar create a framework for the entire budget development process, their careful design is critical to an efficient and effective process.

### 2.7.2.1 Preparation of Budget Guidelines

Budget preparation guidelines typically are prepared by the assistant superintendent of business/finance (or some equivalent individual such as a chief business official, budget administrator, etc.) with input from the school board, the superintendent, and other district and campus representatives. A school district may require presentation and/or approval of the final budget process, guidelines and calendar by the school board, but it is not a legal requirement for school districts. The budget preparation guidelines which are distributed to campuses should at a minimum include the following elements:

- A budget transmittal letter from the superintendent which provides the overall context for budget development at the district/campus levels.

- A budget memorandum/overview which: explains the district budgeting philosophy and approach; outlines the budget development process; and references major assumptions and changes in the budgetary process from the previous year.

- Fiscal limitations to be observed district-wide such as maintenance of service levels, specific percentage increases/decreases in resource allocations, and personnel hiring guidance.

- A budget calendar of critical dates for budget development, submission and review.

- Instructions concerning which expenditure items are to be budgeted at the campus level and what level of detail is required for submission.

- A copy of standard budget preparation worksheets, submission forms and/or disks.

- A list of the account codes necessary for the preparation of campus budgets. This list normally will include function, object, sub-object and program intent codes.

Many of these elements may be combined into a budgetary overview included in the district budgeting guidelines. A sample of a budget transmittal letter and budget guidelines adapted from the Fort Worth Independent School District are shown in Appendix 1. In addition to these elements, the budget preparation guidelines may also contain:

- A list of district-wide budget assumptions.

- Guidelines for the estimation of standard campus resource allocations from district funds. These guidelines are determined by the budgetary approach taken and are discussed in section 2.9.1, Development of Campus Budgets.

- Guidelines for estimating the costs of specific expenditure categories such as salaries and benefits, supplies or fixed charges.

- Instructions for the submission of campus budgets to the district budget office including the number of copies required, due dates and personnel to contact for assistance.

## 2.7.2.2 Preparation of the Budget Calendar

The budget calendar listing critical dates for the preparation, submission and review of campus budgets for the school district is prepared during the budget planning process at the district level. A variety of simple techniques may be utilized to build the district calendar. The easiest technique is to begin with the previous year's calendar and modify it for use in the current year. Timing problems from the previous year's process should be reviewed and appropriate changes made in the current year's calendar. At a minimum, the budget calendar should be reviewed to ensure that it is appropriate for the current year's budget development process.

If the budget development process in a school district has been altered substantially from the previous year's process, the development of an entirely new budget calendar may be necessary. The following three steps may be used to prepare a new budget calendar:

- Determine the level of detail needed. A district may have several budget calendars with varied levels of detail provided. A general calendar may be presented to the school board while a detailed calendar may be used in the budget guidelines for use at the campus level. If several calendars are used, they should be summarized in a district master calendar to ensure that all the activities and dates are consistent and compatible.

- Identify all the activities which must be included in the calendar and arrange them in chronological order.

- Assign completion dates to each activity on the calendar. Completion dates should be assigned working backward through the activities from the legally mandated date for presentation of the preliminary school district budget to the school board by August 31st (June 30th depending upon a school's fiscal year start date). In order for the budget to be adopted by the board of trustees, inclusive of amendments, no later than August 31 (June 30 if the district uses a July 1 fiscal year start date), allow time to publish the notice (by August 20th or June 19th). Dates should also be assigned to ensure that sufficient time is allowed for the completion of each activity on the calendar. Some school districts may wish to assign only completion dates for each activity and allow budget actors/groups to determine when an activity is begun. Other school districts may assign suggested/mandatory start dates for certain activities to ensure their timely completion.

Budget calendars often contain a column which shows who is responsible for each activity listed. This column is helpful to users since a quick scan of the calendar allows each of them to identify those activities in the budget development process for which he/she is

responsible. The sample budget calendar shown in Exhibit 4 is particularly useful to users because it shows activities, completion dates and the person responsible for each activity.

**Exhibit 4. Budget Calendar Sample**

| Target Date | Activity/Process (Move activities two months earlier if district uses a July 1st fiscal year start date) | Responsibility |
|---|---|---|
| 2-24-0X | Budget process approved | Superintendent |
| 2-25-0X | Projected enrollments developed | Assistant Superintendent for Administration |
| 3-6-0X | Budget process outlined to principals and staff | Superintendent and Assistant Superintendent of Finance |
| 3-8-0X | Beginning of campus budget preparation | Principals/staff/RPGs |
| 3-8-0X | Beginning of special program and support service budget preparation | Special program and support departments |
| 4-1-0X | Completion of campus budgets | Principals |
| 4-3-0X | CIC advisory review | CICs |
| 4-6-0X | Campus budgets forwarded to PRC | Principals |
| 4-6-0X | Completion of special program and support service budgets | Special program and support service administrators |
| 4-8-0X | Initiate PRC review of campus budgets and non-allocated requests | Peer Review Committee Chair |
| 4-22-0X | Complete PRC review of campus budgets | Peer Review Committee |
| 4-22-0X | Complete prioritization of non-allocated requests | Peer Review Committee |
| 4-27-0X | Initiate BRT review of campus budgets and non-allocated requests | Budget Review Team Chair |
| 5-15-0X | Complete BRT review of campus budgets and non-allocated requests | Budget Review Team |
| 5-18-0X | Review projected revenue estimates | Superintendent and Assistant Superintendent of Finance |
| 5-19-0X | Initiate superintendent's review of preliminary district budget | Superintendent |
| 5-21-0X | Review personnel staffing and proposed salary schedule | Superintendent and Assistant Superintendents |

| Target Date | Activity/Process (Move activities two months earlier if district uses a July 1st fiscal year start date) | Responsibility |
|---|---|---|
| 5-22-0X | Review of building maintenance, renovation, and future construction schedules | Superintendent and Assistant Superintendents |
| 6-1-0X | Complete superintendent's review of preliminary district budget, personnel requirements, facility requirements, and projected revenue | Superintendent and Assistant Superintendents. |
| 6-8-0X | Complete first draft of district budget | Assistant Superintendent of Finance |
| 6-9-0X | Review first draft of district budget | Superintendent |
| 6-16-0X | Budget workshop | Superintendent and School Board |
| 6-24-0X | Administrative budget meeting | Input from citizens |
| 7-16-0X | Budget workshop | Superintendent and School Board |
| 7-30-0X | Complete final budget draft | Superintendent and Assistant Superintendent of Finance |
| 8-6-0X | Preliminary public budget hearing | School Board, Superintendent, and Assistant Superintendent of Finance |
| 8-13-0X | Official public budget hearing | School Board, Superintendent, and Assistant Superintendent of Finance |
| 8-27-0X | Budget adopted **(see note below)** | School Board |

Note: **Two critical dates** for budget preparation/adoption have been mandated by TEA. These dates (as noted in the previous section, Legal Requirements for Budgets) are: (1) **August 20th** - the district budget must be prepared by this date (**June 19th** for districts that have a July 1st fiscal year start date) in order to have the numbers for publication in the newspaper, and (2) **August 31** - the district budget must be adopted by the school board by this date (**June 30th** for districts that have a **July 1st** fiscal year start date).

# 2.8 Annual District Revenue Estimates

While the budget calendar and guidelines are being developed, school district administrators will be developing revenue estimates for the school district budget. These estimates are based upon a variety of demographic and tax information. Estimating revenue from the two major sources, state funding from the Foundation School Program (FSP) and local property taxes, are critical to the budget.

## 2.8.1 Foundation School Program Revenue

The basic concept underlying the FSP was first implemented with the passage of the Gilmer-Aiken Bill by the 51st Texas Legislature in 1949. There have been many modifications to the funding formulas since then, but the basic concept remains the same. Financing the foundation program is a shared arrangement between the state and the school district, where property taxes are blended with revenues from the state to cover the cost of basic and mandated programs. The school district's share of FSP is based on its ability to generate tax revenue. It is interesting to note that Gilmer-Aiken first attempted to equalize wealth among public school districts in Texas by having school districts with greater property wealth contribute a larger share of the foundation program.

The FSP is made up of two tiers of costs; these costs are funded by local tax dollars and state revenue from foundation fund entitlements and state available school funds (per capita apportionment). To forecast the local requirement for the foundation program, school district administrators need to understand the concepts and calculations behind the assessed valuation of taxable property, the tax rate and the percent of tax collections, and how current economic conditions can affect these components of local effort. It is equally important, however, for school district administrators to have a solid understanding of the FSP formulas and the concepts and calculations which make up these formulas. This understanding allows the school district administrator to project available state resources. The more scarce the state and local resources, the more critical this knowledge becomes.

In 2006, the Texas Legislature passed a major property tax bill that was designed to drive down local property tax rates. In 2006-07, school districts underwent the first round of tax rate compression, designed to reduce local property taxes. State aid is provided to make up for the loss of local tax revenue. In 2006-07, local tax rates were reduced by 11% from the 2005-06 school year. In 2007-08, local tax rates will be further reduced, to produce a one-third reduction from the 2005-06 property tax rates.

Provisions in the property tax code limit the ability of districts to increase property tax rates. These provisions have become more restrictive with the passage of property tax relief in 2006. In 2009-10, school districts will be allowed to adopt tax rates to maintain their 2008-09 revenue per student in weighted average daily attendance (WADA) or $1.00,

whichever is less. They may add $0.04 to this base rate without triggering an election. Districts that wish to add more than $0.04 to their base rate may conduct a rollback election in which voters are given the opportunity to accept or reject the higher tax rate. The maximum maintenance and operations tax rate for districts in 2007-08 and beyond is $1.17.

## 2.8.1.1 Basic Allotment

The cost of Tier I reduced to its simplest form is a basic allotment (a dollar value allocated to a regular student in the foundation school program) times the school district's average daily attendance (ADA). The legislature establishes the dollar amount of the basic allotment and sets the rules for calculating ADA for each biennium. Funding for any given fiscal year is based on attendance for that year. Accurate estimations of future revenue are reliant on good projections of ADA.

If school districts and students were homogeneous commodities, calculating Tier I revenues could be relatively simple. But school districts range from urban to rural, large to small, wealthy to poor. The cost of providing a given service can vary greatly simply because of different economic conditions in different areas of the state. Students are even more diverse. The cost of providing special services or classes for certain populations of students can be greater than the cost of providing a basic program. As an example, equipping a Career and Technical class to teach students welding could cost considerably more than a regular English class. In another example, the teacher/pupil ratio may be lower for a special education class than for a regular class to provide an effective learning environment for physically and mentally challenged students.

### *Adjusting for District Differences and the Cost of Education Index*

To account for varying conditions among school districts, the FSP formula allows for adjustments to the basic allotment. Many small rural districts suffer a hardship due to diseconomies of scale. A school district that must provide a physics class for only five students will have a considerably higher per pupil cost than a larger school district that places twenty students in the same class. To lessen this hardship, the FSP formula provides for a small school district adjustment to be applied to the basic allotment for school districts with ADA of less than 1,600. There is also a sparsity adjustment for small school districts with ADA of less than 130 students that allows those districts to receive funding on an ADA that is higher than their actual ADA. Finally, there is a mid-sized district adjustment for school districts with ADA between 1,600 and 5,000.

Due to factors beyond the control of school districts (such as the cost of living), the cost of providing an education to students varies around the state. To adjust for varying economic conditions, the state assigns a *cost of education index* (CEI) to each school district. The CEI adjusts the basic allotment and yields a higher adjusted basic allotment.

## *Adjusting for Differences in Student Populations (Full Time Equivalents)*

Student attendance is the other major factor in Tier I. Just as the basic allotment must be adjusted to equalize conditions from district to district, the services needed for special student populations must also be considered to provide for equitable funding. The FSP formula provides for many types of adjustments for student populations. For example, the rules for calculating ADA are different for school districts that have a high population of students from migrant families. Currently these school districts are allowed to use their best four six-week attendance periods in determining ADA, rather than all six six-week periods.

Another type of funding adjustment is used for Career and Technical and special education students. In fact, the attendance calculations for students in these special programs is so different from basic attendance calculations that attendance for Career and Technical and special education students is subtracted out before calculating the regular block grant. The regular block grant is calculated using regular program ADA. (Regular program ADA is the district's refined ADA less Career and Technical and special education full-time equivalent students.)

The second consideration is that students enrolled in Career and Technical or special education classes do not always take those classes exclusively. Instead of ADA, attendance for Career and Technical and special education students is expressed in terms of *full-time equivalents* (FTEs). The FTE concept takes into account the amount of time the student spends in the special program class and the costs associated with providing that special program. One FTE is the equivalent of an eligible student served in a program all day (6 hours a day) and who is present on each day of instruction offered by the district. So, if attendance for a program that serves 20 students is given as 3.2 FTEs, then the attendance in the program for these 20 students is equivalent to three students served for a full day and a fourth student served for 20 percent of the day for each day in the instructional period.

Each special program is assigned a standard number of contact hours per day of attendance and an FTE funding weight. The weight takes into account extra expenses, such as reduced teacher/pupil ratio, associated with each special program and provides additional funding to cover the specific costs associated with the special program. For example, the weight for

speech therapy is five, which means that funding to provide that type of instruction is five times that of funding for regular program instruction.

## *Calculating FTEs*

In special education, a separate FTE count is calculated for each instructional setting. The total days present for all eligible students in each instructional setting during a six-week period is multiplied by the standard number of contact hours for that instructional setting. This gives the total contact hours. Total contact hours are then divided by the number of hours in the six-week period (six hours per day times the number of days in the six-week period). To obtain the yearly FTEs, FTEs are averaged for the six six-week periods. (If a school district is designated as having a high migrant population, FTEs are averaged for the same four best six-week periods that are used to compute ADA.)

For Career and Technical education, the process is similar. Career and Technical FTEs are calculated by multiplying the total days present for all eligible students in each Career and Technical course times the appropriate standard number of contact hours for that Career and Technical course. The total contact hours are then divided by the number of hours in the six-week period. The yearly FTEs are the average of the FTEs for the six six-week periods. (If a school district is designated as having a high migrant population, FTEs are averaged for the same four best six-week periods that are used to compute ADA.)

## *Adjusting for other Special Programs*

For other special programs, such as compensatory, pregnant students, bilingual/ESL and gifted and talented, another method is used to provide additional funding. Unlike the counts for Career and Technical and special education students, counts of students in these special programs are included in the regular ADA counts. A school district receives the adjusted basic allotment for each of these students and then an additional allotment for special program participation is tacked on.

To determine the additional allotment, participants in these mandated programs are counted according to a defined method. (For example, the compensatory education count is based on an average of the best six months' enrollment in the free and reduced lunch program for the federal calendar period, the twelve month period starting in October and continuing through September of the current school year.) The count for each program is multiplied by a funding weight assigned to that program. The adjusted count is then multiplied by the adjusted basic allotment to determine the extra allotment for participants in the special program.

### *Total Tier I Costs*

The cost of Tier I consists of: the regular block grant (adjusted basic allotment times regular program ADA); Career and Technical and special education allotments (adjusted basic allotment times Career and Technical and special education weighted FTEs); allocations for mandated programs such as compensatory, gifted and talented and bilingual/ESL (adjusted basic allotment times funding weight times program count); and an allocation for transportation. The school district's transportation allocation is based on a linear density formula. HB 3646, 81st Regular Legislative Session, added TEC 42.159 which allocates funds based on students' participation in the state virtual school network (VSN) and also moves the high school allotment to TEC 42.160 with the same $275 funding per high school student in ADA.

The local school district and the state contribute to the funding of Tier I. The school district's share, known as the local fund assignment (LFA), is determined by its wealth in terms of property value. A district's value is set by the state comptroller's property tax division (PTAD) and is a year behind the school year (i.e. 2003 tax year values used in 2004-05 school year). This value per hundred times the Tier I tax rate established by the legislature (currently set at the district's compressed tax rate or DCR) gives the local share of Tier I costs. As a school district's property values per student increase, the state's contribution will decrease, assuming all other variables remain constant. When property value is at a level that the local share equals or exceeds the cost of Tier I, the school district is referred to as *budget balanced.*

## 2.8.1.2 Tier II, Enrichment

While the purpose of Tier I is to fund the basic program, Tier II is for the purpose of enriching the basic program. The concept behind Tier II is to ensure that school districts with low property values generate a guaranteed level of revenue with their tax effort. Like Tier I, Tier II is a shared arrangement between the state and the local school district. The school district's tax effort above the Tier I requirement and up to a maximum level established by the legislature is guaranteed to yield a certain amount of revenue per weighted student (reference the Summary of Finances template for current information about funding). Tier II is sometimes referred to as the guaranteed yield.

### *Tier II Ingredients*

The key ingredients in calculating Tier II are property value, local tax effort and number of weighted students. Property values are the same PTAD values used in Tier I. Since local taxes are levied against current values and the values used in the funding formulas are a year behind, there could be considerable differences in the property values used for state

funding and those used for levying taxes. This disparity creates a favorable situation for school districts whose values are on the increase. But in cases where values are decreasing, the one-year lag time could cause some school districts to increase their tax rates just to cover their Tier I and Tier II requirements (this is less likely due to restrictions on rate increases).

Tier 2 is a guaranteed yield program that provides enrichment for each cent of tax effort that exceeds the district compressed tax rate (DCR). Tier 2 currently provides two levels of enrichment. The first level of Tier 2 provides a guaranteed yield based on a yield equivalent to the wealth per WADA for the Austin Independent School District (AISD rate) on the next six pennies of tax effort above the compressed tax rate. In 2009-10, this yield is $59.02. The second level of Tier 2 is generated by tax effort that exceeds the compressed tax rate plus six cents. In 2009-10, the yield is $31.95.

The third factor in Tier II is the number and types of students being educated by this district. Just as in Tier I, costs related to students with differing needs vary. To treat school districts fairly in funding, *weighted average daily attendance (WADA)* is used to measure the extent students are participating in special programs. Calculating WADA is a complex exercise. WADA calculations begin with the allotments derived by multiplying the adjusted basic allotment times regular and special program student counts (Tier I less the transportation allotment less High School Allotment less Virtual School Network Allotment less New Instructional Facilities Allotment). This amount is reduced by subtracting one half the effect caused by the CEI adjustment in Tier I. This reduced amount is divided by the adjusted basic allotment to produce WADA. The concept of WADA in effect converts all of a school district's students with their different weights to a calculated number of regular students required to raise the same amount of Tier I revenue. A school district's WADA will be greater than its ADA. The greater the number of students eligible for special entitlements, the greater a school district's WADA will be.

## *Tier II Revenue*

Tier II guarantees that the local tax effort produces a minimum amount of revenue per WADA by establishing a guaranteed yield level. A property-poor school district whose PTAD value is one third the guaranteed level would receive two dollars from the state for each dollar generated in local taxes in Tier II. This matching of tax revenue with state funds continues until the effective tax rate reaches the $1.17 tax limit. Any school district whose wealth per WADA produces more than the guaranteed yield level for each cent of effective tax rate receives no Tier II revenue from the state.

One of the equalization features of the funding formula is a cap on wealth per WADA. Chapter 41 of the *Texas Education Code* establishes an equalized wealth level for the school year and gives districts above this level several methods to either reduce wealth or

increase WADA in order to achieve the equalized wealth level. Like Tier 2, there are different EWLs that apply to different levels of tax effort. The first EWL is based on the basic allotment wealth per WADA, allowing school districts to retain revenue on a tax base equivalent to $476,500 per WADA. This EWL applies to the compressed tax rate. The second level of EWL exempts the next six pennies of tax effort above the compressed tax rate from any recapture provisions. Tax effort that exceeds the compressed rate plus six cents in FY 2009 and beyond, would be subject to recapture based on an EWL of $319,500.

### 2.8.1.3 State Assistance for Existing Debt

A program to assist districts with the payment of their existing debt service was created beginning with the 1999-2000 school year. The Existing Debt Allotment program is similar to the Tier II funding structure. For the purposes of this allotment, existing debt is bonded debt for which the district levied an I&S tax and made payments on or before August 31, of the last year of the preceding state fiscal biennium (reference the Summary of Finances template or the School Finance site for Existing Debt Allotment for current information about funding).

### 2.8.1.4 State Assistance for Instructional Facilities

The Instructional Facilities Allotment (IFA) program was authorized to begin in the 1997-98 school year. This program assists districts with the payment of newly issued bonds and lease-purchase agreements. The funding formula for the IFA program is similar to the formula for Existing Debt Allotment (EDA) program. This guaranteed level matches annual debt up to a specified amount per ADA (reference the Summary of Finances template or the School Finance website on IFA for current information about funding). Funds for this program are limited by appropriation. Districts must apply for assistance, and all applicants are prioritized according to wealth per student. Funds are then awarded until the appropriation is exhausted.

The primary difference between the IFA and EDA programs is related to the timing of state assistance. With the IFA program, districts that receive IFA awards begin receiving state assistance as soon as the eligible debt is issued. With the EDA program, school districts typically issue the debt and make payments for up to two years prior to receiving state assistance, depending upon the timing of the bond issuance. Also, the EDA program does not provide state assistance for lease-purchase agreements.

### 2.8.1.5 State Assistance for New Instructional Facilities

Texas Education Code (TEC) §42.158 created the New Instructional Facilities Allotment (NIFA) for operational expenses associated with the opening of a new instructional facility and is available to all public school districts that construct new instructional facilities that meet the requirements of the statute and rules. Refer to the Summary of Finances template or the School Finance website on NIFA for current information about funding).

### 2.8.1.6 Total State Aid

Total state aid is the sum of the state's share of Tier I and Tier II plus the Existing Debt Allotment and the Instructional Facilities Allotment, plus other program aid which the state funds without requiring local matching. An example is an allotment for students being served in a regional school for the deaf program.

Each school district, including budget balanced schools, receive per capita revenue based on a rate times the prior year's ADA. This per capita revenue is subtracted from the total calculated state aid. If a positive balance occurs, the result is the portion of the district's total state aid that will be funded from the Foundation School Fund.

Estimating FSP funds is an important step in a school district's budgeting process. Accuracy requires the ability to forecast the future and understand thoroughly the forces that drive the funding formula. The FSP revenues distributed to schools during the year are based on estimated student counts and tax collections. As changes in variables are detected, funding estimates should be recalculated to determine if spending levels for affected programs should be amended and to predict the effect of changes on future payments.

Note: The accounting treatment for foundation school program revenue recognition is discussed in detail in the Financial Accounting and Reporting module of the *Resource Guide.*

## 2.8.2 Local Property Tax Revenue

In addition to estimating revenues from FSP, revenue estimates for local property taxes (to fund local share, interest and sinking, and local enrichment) must be made. Although certified tax rolls are not available until the end of July, for budgetary purposes a school district should make an effort to forecast its revenue from property taxes before completion of the certified tax roll. The appraisal district responsible for the school district's property valuations usually will have its initial value estimates available in May of each year.

Business managers should be conservative in making this estimate as the appeals process has not yet been completed. A recap of valuation will be available from the appraisal district throughout the appeals process, and revenue projections can be monitored and changes made before the initial estimates are released. The appraisal district often can communicate perceived trends and make comparisons to previous years about the amount of the projected revenue.

For school districts with available resources, property valuations are an ongoing process which requires continuous monitoring. For example, the process might include activities such as:

- Analyzing market/sales by neighborhood to determine the value of new construction as well as the market value of property in the area

- Reviewing and monitoring the appraisal methods used by the appraisal district to ensure accurate appraisals

- Monitoring the hearing process (including what and how much property is scheduled for hearing and the hearing results)

- Reviewing values by property category (e.g. residential single family, commercial, etc.)

- Preparing interim reports updating actual revenues expected from property taxes for the upcoming fiscal year

In addition, long-term tax roll comparisons are important in examining property tax/value trends and performing historical analysis. Long-term analysis may identify extreme variations in the property tax valuations and establish a baseline for comparing the current fiscal year's projection to past revenues. Such a long-term analysis from the Houston Independent School District is shown in Exhibit 5.

**Exhibit 5. Long Term Tax Roll Analysis**
**Source: Houston Independent School District**

TAX ROLL ANALYSIS
1987 - 1992
(87-92 Values Updated 4/22/93)

| Tax Year | Gross Appraised Value | Lawsuit Reduction | Hearing Reduction | Total Appealed | Percent Hearing Loss | Percent Roll Value Appealed | Number of Accounts | 100% Tax Roll Value | Total Exemptions | Total Taxable Value |
|---|---|---|---|---|---|---|---|---|---|---|
| 1987 | $54,739,747,190 | $310,450,080 | $2,942,297,110 | $20,948,447,564 | 14.05 | 40.69 | 439,798 | $51,487,000,000 | $4,780,719,000 | $46,706,281,000 |
| 1988 | $52,176,142,264 | $214,851,365 | $2,554,031,899 | $19,446,238,325 | 13.13 | 39.36 | 438,386 | $49,407,259,000 | $4,300,255,000 | $45,107,004,000 |
| 1989 | $51,194,214,594 | $148,208,830 | $2,893,849,764 | $21,304,317,681 | 13.58 | 44.24 | 440,614 | $48,152,156,000 | $4,562,382,000 | $43,589,774,000 |
| 1990 | $51,490,912,705 | $205,857,290 | $2,081,605,415 | $17,554,037,855 | 11.86 | 35.68 | 440,858 | $49,203,450,000 | $4,360,001,000 | $44,843,449,000 |
| 1991 | $53,342,359,686 | $92,269,541 | $2,245,183,145 | $18,613,000,520 | 12.06 | 36.49 | 454,968 | $51,004,907,000 | $4,553,893,000 | $46,451,014,000 |
| 1992 | $52,580,544,812 | $15,344,720 | $1,614,774,092 | $15,774,804,729 | 10.24 | 30.96 | 451,647 | $50,950,426,000 | $4,748,616,000 | $46,201,810,000 |
| Avg. (6 yr.) | $52,587,320,209 | $164,496,971 | $2,388,623,571 | $18,940,141,112 | 12.49 | 37.90 | 444,379 | $50,034,199,667 | $4,550,977,667 | $45,483,222,000 |
| 1993 **Proj.** | $53,770,930,996 | $150,000,000 | $2,220,498,676 | $18,504,155,635 | 12.00 | 36.00 | 454,146 | $51,400,432,320 | $4,736,604,220 | $46,663,828,100 |

## 2.8.3 Development of Overall Annual Revenue Estimates

Although local property tax and FSP revenues account for the majority of school district revenues, other sources must be considered in completing a district's overall annual revenue estimate. Federal funds and private sources (e.g. private foundations, businesses, etc.) should be forecasted as well. In addition, school districts should examine delinquent tax collections, fees, and extracurricular revenue sources. Revenue estimates are discussed further in the later section on Financial Forecasting and Planning.

# 2.9 Annual District and Campus Expenditure Estimates

While the responsibility for developing revenue estimates lies primarily with district administrators, expenditure estimates are the shared responsibility of district administrators, support personnel and individual schools. Budget guidelines may provide substantial guidance for the estimation of campus expenditures through the use of standard cost allocations, per pupil estimates or other guidelines. If not, individual schools will be responsible for estimating campus expenditures themselves. Regardless of whether expenditures are estimated at the campus or district level, these estimates are critical to the development of budgets.

Estimates of district/campus expenditures at the functional level normally will be made during budget preparation for the following major expenditure categories (objects): (1) Payroll Costs (6100), (2) Professional and Contracted Services (6200), (3) Supplies and Materials (6300), (4) Other Operating Costs (6400), (5) Debt Service (6500), (6) Capital Outlay - Land, Buildings and Equipment (6600), and (7) Other Uses/Non-Operating Expenses/Residual Equity Transfers Out (8000). Specific techniques for estimating these expenditure categories are discussed later in the Financial Forecasting and Planning section of this module.

## 2.9.1 Development of Campus Budgets

The development of campus level budgets follows the budget preparation guidelines which are issued by the superintendent. While the revenue side of the district budget is prepared by district administrators, campus level budgets become the basis for the expenditure side of the district budget as that information filters up through the various levels of review. Additional budgeted expenditures for costs which are centrally budgeted such as debt service and interest costs normally are added when the district wide preliminary budget is compiled.

Although a campus may receive an allocation of district resources based upon standard allocation formulas, the budgeting of these resources, exclusive of legal mandates, is at the discretion of the campus under the site-based decision making model. Consistent with the outcome focus, the development of campus budgets should evolve from the planning process. As such, campus budgeting should begin with the identification of a school's goals and objectives by the school's resource planning group (RPG) or equivalent (e.g. the campus improvement committee - CIC), as a first step in the campus budget development process. These goals and objectives should be driven by the educational needs of the campus (i.e. instruction). In addition, the school's goals and objectives should be

developed in accordance with long-term district educational goals and campus improvement plans.

Once consensus is reached on these goals and objectives, current operations should be evaluated as to their effectiveness in achieving them. New programs may need to be developed for the current year's operations to attain goals and objectives which are not addressed by a school's current programs. Programs should then be prioritized as to their effectiveness in attaining the developed goals and objectives. Finally, available resources should be allocated to each program or operation. Resource allocation decisions should take into account the need for a flexible budget. Such flexibility will diminish the need for subsequent budget changes and amendments. In addition, flexibility will better insulate the budget from potential inaccuracies in enrollment, staffing, revenue and expenditure estimates.

The stage at which resources are allocated to prioritized programs will be determined by the budgetary approach taken and stated in the budget preparation guidelines. School districts which utilize item-of-expenditure and program budgeting probably will allocate each school a certain *base* resource allocation that is budgeted at the campus level. For example, a district may allocate a school a certain percentage of its prior year's budget (e.g. 80 percent) or a per student allocation based upon ADA (as in Exhibit 6).

In contrast, those school districts utilizing ZBB may allocate resources at the district level after all decision packages have been developed and ranked. Many districts currently use a mix of these approaches to provide campuses a standard allocation based on projected enrollments or historical expenditures and use a competitive ranking process for new or non-allocated programs. If a school district uses this mixed approach, the RPG is also charged with developing and prioritizing non-allocated budgetary requests for submission to the peer review committee (PRC) or an equivalent group.

Preliminary budget allocations and non-allocated requests are normally submitted to the PRC using standard forms. These forms may be transmitted electronically or on hard copies. Sample budget submission forms are shown in Exhibit 7. These forms have three basic elements: (1) a budget summary form, (2) a more-detailed expenditure summary form, and (3) a new program request form. Consistent with the move toward matching goals and objectives with budgeted expenditures, a section on the budgeted program/operations goals and objectives is included in the forms.

The final step in campus budget preparation is the review of preliminary resource allocations and non-allocated requests by the CIC. Once this review is completed and revisions incorporated, campus allocations and non-allocated requests are submitted to the PRC for review.

**Exhibit 6. Standard Resource Allocations Sample**

| **Proposed Resource Allocations:** | |
|---|---|
| **1. Proposed Campus Allocations:** | |
| Elementary/Intermediate Schools | $65 per student |
| Junior High Schools | $75 per student |
| High Schools | $90 per student |
| **2. Proposed Special Instructional Program** | |
| Allocations: | |
| Special Education Program | $36 per student |
| (excludes Co-op direct expense) | |
| Compensatory Education Program | $10 per student |
| (add $140 for dyslexia student) | |
| Gifted and Talented Program | $30 per student |
| ESL Program | $135 per student |
| Occupational Educational Program | $40 per student |
| Educational Technology Program | $30 per student in average daily attendance |
| **3. Proposed Co-curricular Program Allocations:** | |
| Athletic Program | $195 per student |
| Band Program | $ 84 per student |
| **4. Proposed Support Services Allocations:** | |
| Curriculum/Instruction Department | $17 per student |
| Personnel Department | $5 per student |
| Administration/Communications/ | $11 per student |
| Health Services Department | |
| Business/Purchasing Department | $10 per student |
| Tax Collection Department | $1 per parcel |
| (excludes delinquent attorney fees) | |
| Facilities Department (excludes utilities, security, energy grant costs and insurance) | $75 per student |
| Information Systems Department | $15 per student |

Note: The example provided above is not meant to be used as a model by Texas school districts. The allocations shown were those used by a school district for fiscal year 2XXX-XX and reflect the operational environment of that district alone. The purpose of this exhibit is merely to illustrate the various types of standard budgetary allocations that are used by school districts.

**Exhibit 7. Sample Budget Submission Forms**

## RESOURCE ALLOCATION SUMMARY FORM

**FISCAL YEAR 2XXX-XX**

1. Campus/Org._____ Org. Code_____

2. Allocation $ _____

3. Summary from Allocation Detail Forms

| Account Code | Account Description | Allocation | Page # |
|---|---|---|---|
| | | | |
| | | | |
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| | | | |
| | | | |
| | | | |
| | | | |
| | | **Subtotal:** | |

4. Total Allocation from Detail Forms $_____

5. Adjustments made in review should be noted and initialed.

Budget Manager_____ PRC Chairperson_____

BRT Chairperson_____ Budget Officer_____

**Exhibit 7. Sample Budget Submission Forms (continued)**

## RESOURCE ALLOCATION DETAIL FORM

## FISCAL YEAR 2XXX-XX

Campus/Organization_____ Submitted By_____

Budget Code _ _ _-_ _-_ _ _ _-_ _ _- _ - _ _ Allocation $_____

Detail: FUND F(x) OBJ ORG FY PROG

| Item/Service Description (1) | Quantity (2) | Dollar Amount (3) | Goals, Objectives or Needs Targeted (4) |
|---|---|---|---|
| | | | |

Column (1) should adequately describe items or service in detail.

Column (2) should identify the quantities of items described.

Column (3) should give the extended dollar amount allocated for the items or services described.

Column (4) should adequately explain the goal, objective, or needs targeted for each resource allocation.

**Exhibit 7. Sample Budget Submission Forms (continued)**

## BUDGET REQUEST FORM

## FISCAL YEAR 2XXX-XX

Campus/Organization_____Requested By_____Priority____

Budget Code(s) _ _ _-_ _-_ _ _ _-_ _ _-_ - _ _ Amount Requested this Code $_____

FUND F(x) OBJ ORG FY PROG

Budget Code(s) _ _ _-_ _-_ _ _ _-_ _ _-_ - _ _ Amount Requested this Code $_____

FUND F(x) OBJ ORG FY PROG

Budget Code(s) _ _ _-_ _-_ _ _ _-_ _ _-_ - _ _ Amount Requested this Code $_____

FUND F(x) OBJ ORG FY PROG

Description of Activity, Materials, Equipment, or Service to be Addressed by this Request:

Justification for this Request (Attach or reference supporting documentation if available)

PRC Priority_____ BRT Priority_____ Supt. Priority_____

PRC Chair_____ Budget Officer: BRT____ Supt. Review_____

## 2.9.2 Review/Revision of Campus Budgets at the District Level

Depending upon the size and organization of the school district, several groups may review the campus budgets and non-allocated requests. The first district level review of campus budgets and non-allocated requests is done by the PRC or a similar group. The PRC review determines the appropriateness of campus budget allocations and reviews/prioritizes non-allocated requests in meeting district goals and objectives. The use of peer review committees for campus budget reviews is a particularly useful device because it involves those who have been closely involved in campus budget preparation, namely principals. Thus, review of budgets is not completely *top-down* as it should not be only district administrators who participate. Ideally, the PRC creates a budget review process that is more decentralized and campus-focused.

# 2.10 Review, Approval and Maintenance of the District Budget

Following an intermediate PRC review, campus budgets and non-allocated requests may be compiled with centrally-budgeted expenditure items for presentation to the budget review team (BRT). The BRT similarly reviews the appropriateness of campus budget allocations and reviews/prioritizes non-allocated requests in meeting district goals and objectives. The BRT may also review district-wide centrally budgeted items as they are compiled into the preliminary district budget. Appendix 2 shows sample budget compilations at both the campus and district levels. At this stage of the budget review process, resource allocations should be evaluated for their long-term implications for the school district. Budget decisions have far-reaching impact on the direction the district takes; therefore, forecasts and trend analysis are important at this stage. The assistant superintendent of business/finance or an individual of equivalent standing is particularly important in providing data compilations, forecasts, and analyses and in serving as the district's budget officer in these meetings. These items are discussed in greater detail in the Financial Forecasting and Planning section of this module.

The final review of the compiled district budget is made by the superintendent who may consult with the assistant superintendent of business/finance and other BRT members. In addition to its value as a review of budgetary allocations, this review familiarizes the superintendent with all aspects of the preliminary budget for his/her presentation of it to the school board.

The presentation of the preliminary district budget to the school board normally is in the form of budget workshops or retreats conducted by the superintendent (or designee). These working sessions familiarize board members with the budget process, preliminary budget and significant budgetary issues (e.g. state or local revenue shortages). At this stage of budget review, it is important for the board to reach consensus on the objectives and priorities of the budget and to provide feedback to district staff on proposed revisions. The board also should consider the long-term implications of resource allocations, expenditure trends and tax rates. Forecasts and projections prepared by the assistant superintendent of business/finance may again be used to aid in these assessments.

For these sessions to be of value to both the board and district staff, board attention should be focused on those issues over which it has control. In school districts utilizing site-based budgeting, the bulk of resource allocations are determined at the campus level and the majority of proposed expenditures have already been reviewed at several levels. The board may have complete discretion over the approval of non-allocated requests; therefore, the working sessions might focus primarily upon these resource allocations.

## 2.10.1 Public Hearings and Adoption of the District Budget

Public hearings are the final step in the budget development process. These hearings are legally mandated by the *Texas Education Code*. The hearings serve as the final opportunity for public review of the proposed budget. They typically include a presentation of a summarized version of the proposed district budget by the board president, the superintendent or the designated budget officer. An example of a summarized budget which may be used for this purpose is shown in Exhibit 8. Significant budgetary issues such as tax rate changes and student enrollment trends may be similarly reviewed before the board hears public testimony.

Following these presentations, individuals and interest groups are given the opportunity to present their testimony/feedback on the proposed budget. Since site-based budgeting emphasizes public participation throughout the budget development process, multiple opportunities exist in the budget development process for input from community members and parents. Following the completion of the public hearings, the school board legally adopts the district budget. Once the budget is legally adopted, funds are then considered available for expenditure.

**Exhibit 8. Summarized Budget Sample**
**Source: Sample Independent School District**

**Budget Summary for Fiscal Year 2XXX-XX**

| | Amount | Percent of Total |
|---|---|---|
| **Sources of Revenue** | | |
| **(All Governmental Funds):** | | |
| Local | $167,921,077 | 50.6% |
| State | 142,973,673 | 43.0% |
| Federal | 21,249,315 | 6.4% |
| Total | $332,144,065 | 100.0% |

| | | |
|---|---|---|
| **Distribution of Budgeted** | | |
| **Appropriations (All** | | |
| **Governmental Funds):** | | |
| Instruction | $188,570,775 | 56.1% |
| Instruction Related | 44,293,074 | 13.2% |
| Plant Maintenance and Operations | 39,356,741 | 11.7% |
| Pupil Services | 33,022,537 | 9.8% |
| Debt Service | 17,983,636 | 5.4% |
| General Administration | 12,704,330 | 3.8% |
| Total | $335,931,093 | 100.0% |

## 2.10.2 Change in Fiscal Year

### *Change in Fiscal Year*

According to TEC 44.0011, school districts may choose a fiscal year that begins on either July 1st or September 1st of each year. A school fiscal year that begins on July 1st

will end on June 30th of the next calendar year. In lieu of making a change in this area, districts may continue the current fiscal year reporting period that begins on September 1st and ends on August 31st of the next calendar year.

In order to change the fiscal year start date to July 1st , districts must file with TEA no later than June 30th of the preceding year, a Notification of Intent to Change the Fiscal Year Start Date. If the district wishes to make a change and the June 30th deadline has passed, please contact Paul Moreno in the Financial Audits Division at 512-463-9095 to discuss available options. Form (FIN-003) is available on the TEA website.

## *Change to June 30 Fiscal Year End*

In the first year of implementation, the financial accounting period will span ten months in those districts that opt to change, beginning September 1, 200A and ending June 30, 200B. However, certain aspects of financial management and reporting will require adjustments in the first year of implementation. These adjustments are required since the state and federal fiscal years did not change, and the administration of state and federal regulatory activities, as well as state funding calculations under the Foundation School Program, require financial data on a 12-month reporting basis. This means that all financial data reported for the first year of implementation, except for the annual financial report, must be based on a twelve-month reporting period, as follows:

- Budget financial data reported through the Public Education Information Management System (PEIMS) for the year of implementation must be on a twelve-month basis for the period beginning September 1st and ending August 31st (two months beyond the July 1st start date of the following fiscal year);

- Actual financial data reported through the PEIMS collection system must be on a twelve-month basis for the period beginning September 1st and ending August 31 (two months beyond the July 1st start date of the following fiscal year), including the actual financial accounting record type 032, and the shared services arrangement actual record type 033. The independent auditor will be required to apply procedures to the district's processes involving the aggregation and reporting of actual financial data on a twelve-month basis, in accordance with Section 44.008(b), Texas Education Code. As a result of this special reporting requirement, the twelve-month data representing actual financial data will match the reporting period for twelve-month data reported for budget financial data;

- Financial data reported to the public for tax rate decision-making processes must be on a twelve-month basis for the period beginning September 1st and ending August 31st to support the calculation of a tax rate for the fiscal year that the start date has been changed to July 1st. This requirement is necessary to determine a tax rate sufficient to maintain the same level of maintenance and operations revenue and pay debt service for the fiscal year that the start date has been changed to July 1st

and ending June 30th. For example, it is anticipated that the setting of a debt service tax rate for the ten-month period ending June 30th may require levy of an additional amount sufficient to pay the July and/or August payment(s) in the next fiscal year.

It is also to be noted that compliance with the legal requirements in Subchapter A, Chapter 44, Texas Education Code, is further complicated by the lack of a certified taxable value when the combined budget and tax rate notice is published in the newspaper prior to adopting a budget no later than June 30th for districts that change their fiscal year start date to July 1st. This will require publication of a second notice in the newspaper prior to setting a tax rate after the certified taxable value is provided to the district;

Financial data prepared for the board of trustees for legal budget adoption purposes will be on a ten-month basis for the fiscal year beginning September 1st and ending June 30th, and must be supplemented with additional financial data prepared on a twelve-month basis for information purposes and to support data reported to the public for tax rate decision-making processes; and

Financial data reported in the annual financial report (audit report) will be prepared on a ten-month basis in all financial statements and exhibits for the fiscal period beginning September 1st and ending June 30th, and will include an additional schedule containing supplemental financial data reporting tax collections for the twelve-month period beginning September 1st and ending August 31st.

For all subsequent fiscal year periods following the first year of implementation of a July 1st fiscal year start date, all financial data will be reported on a twelve-month basis spanning July 1st through June 30th . Please note that additional considerations may affect a school district's decision to implement a change in its fiscal year start date, including the installation of new financial accounting software and/or significant problems in internal financial management activities such as general ledger reconciliation problems. Some school district officials have indicated that the elimination of accrued payroll liabilities will be the primary benefit of a change in the fiscal year start date; however, it is important to understand that this change will not eliminate all accrued payroll liabilities (the exact impact on accrued payroll liabilities can be clarified by visiting with the district's independent auditor). Prior to making this change, it is also recommended that the district's administration advise the board of trustees and have the board ratify administration's proposed decision to change the start date of the fiscal year. District administration should also inform the board of trustees about the impact this change will have on various administrative processes, such as the budget development calendar. It will also be important to monitor any activity during the upcoming legislative session that may impact certain aspects of this financial management issue. Lastly, it is recommended that

the district consult with its independent auditor before making a change in the fiscal year start date.

## *Change Back to August 31 Fiscal Year End*

In the first year of implementation, the financial accounting period will span fourteen months in those districts that opt to change back, beginning July 1, 200D and ending August 31, 200E. However, certain aspects of financial management and reporting will require adjustments in the first year of implementation. These adjustments are required since the state and federal fiscal years did not change, and the administration of state and federal regulatory activities, as well as state funding calculations under the Foundation School Program, require financial data on a 12-month reporting basis. This means that all financial data reported for the first year of implementation, except for the annual financial report, must be based on a twelve-month reporting period, as follows:

Budget financial data reported through the Public Education Information Management System (PEIMS) for the year of implementation must be on a twelve-month basis for the period beginning September 1st and ending August 31st (two months beyond the July 1st start date of the preceding fiscal year);

Actual financial data reported through the PEIMS collection system must be on a twelve-month basis for the period beginning September 1st and ending August 31 (two months beyond the July 1st start date of the preceding fiscal year), including the actual financial accounting record type 032, and the shared services arrangement actual record type 033. The independent auditor will be required to apply procedures to the district's processes involving the aggregation and reporting of actual financial data on a twelve-month basis, in accordance with Section 44.008(b), Texas Education Code. As a result of this special reporting requirement, the twelve-month data representing actual financial data will match the reporting period for twelve-month data reported for budget financial data;Financial data reported to the public for tax rate decision-making processes must be on a twelve-month basis for the period beginning September 1st and ending August 31st to support the calculation of a tax rate for the fiscal year. This requirement is necessary to determine a tax rate sufficient to maintain the same level of maintenance and operations revenue and pay debt service for the fiscal year. For example, it is anticipated that the setting of a debt service tax rate for the fourteen-month period ending August 31st may require levy of an additional amount sufficient to pay the July and/or August payment(s) in the next fiscal year;

Financial data prepared for the board of trustees for legal budget adoption purposes will be on a fourteen-month basis for the fiscal year beginning July 1st and ending August 31st, and must be supplemented with additional financial data prepared on a twelve-month basis for information purposes and to support data reported to the public for tax rate decision-making processes; and Financial data reported in the annual financial report (audit report) will be prepared on a fourteen-month basis in all financial statements and exhibits for the fiscal period beginning July 1st and ending August 31st, and will include an additional schedule containing supplemental financial data reporting tax collections for the twelve-month period beginning September 1st and ending August 31st.

For all subsequent fiscal year periods following the first year of implementation of a September 1st fiscal year start date, all financial data will be reported on a twelve-month basis spanning September 1st through August 31st. Please note that additional considerations may affect a school district's decision to implement a change in its fiscal year start date, including the installation of new financial accounting software and/or significant problems in internal financial management activities such as general ledger reconciliation problems.

## 2.10.3 Small and Mid-Size District Differences

Although the budget development process outlined in the previous sections should be used as a guide for all school districts as they move toward site-based budgeting, the budget development process in small and other mid-sized districts may differ somewhat from this model. The various levels of review and analysis which are necessary in larger, more complex districts may be compressed or eliminated in smaller ones. The budget process developed and utilized by another Texas school district with ADA of 4,700 shows some of these differences. This example uses campus budget preparation groups similar to those in the previous example, but it differs in the number of reviews at the district level.

These groups prepare annual campus budgets based upon standard resource allocations per student (based upon ADA) and non-allocated requests, called *decision packages.* Rather than using a district wide peer review group, however, campus budgets are presented to the assistant superintendent of curriculum and instruction for review. Finally, campus budgets are reviewed by the assistant superintendent of business/finance and the superintendent before their approval by the school board. Decision packages are similarly reviewed for appropriateness before being sent to the board for consideration. When budget workshops are held to review the preliminary district budget, the board's attention is focused upon the prioritization and funding of the decision packages. After all the decision packages have been considered, the district budget is presented in public hearings and approved.

Although this summary of this budget development process is cursory, it does demonstrate how individual districts create budget processes that are appropriate for their size,

administrative structure, and operating environment. This model is specific to the district's environment while remaining consistent with TEA's endorsement of site-based decision making. Finally, the budget process focuses the board's attention and administrative review on those issues that the board has deemed most controllable and important, namely the decision packages.

## 2.10.4 Monitoring the Budget

As budgeted funds are expended, periodic monitoring of the budget should be conducted in accordance with responsibility accounting. Each level of the district's organization is responsible for monitoring those budget items for which it is responsible. Ideally as the budget was prepared, spending plans were developed for use in budget monitoring. For example, as a principal and other RPG members develop a campus budget, the timing of planned expenditures should be noted and documented. Thus, a principal has a tool to monitor expenditures during the fiscal year. The district accounting system normally generates expenditure and encumbrances information at least on a monthly basis. To review budget performance, this information is compared with campus spending plans by principals. Principals may in fact monitor budgetary performance on a transaction-by-transaction basis if they have access to the district's computerized accounting system.

Budget monitoring for the entire district should be done similarly by district administrators. The assistant superintendent of business/finance and other district administrators can use similar expenditure and encumbrance reports to monitor the budget compliance of programs and funds. *Annualized budget summaries* which project the impact of current expenditures on year-end results are useful in this effort.

The level and frequency of management review of the budget will vary by district. In most districts, the superintendent (or designee) reviews budget-to-actual comparisons monthly. Reporting periodic budget/actual results to the school board is customary in most districts. This reporting relationship should not be interpreted to mean that the board manages budget implementation. That responsibility is ultimately the superintendent's; however, school board members should be given periodic updates on budget results and be informed of significant budgetary issues. This flow of information keeps the board apprised of issues which may affect the district's performance and prepares them for the next budget cycle.

Related Link:
Example Monthly Budget Status Report for General Fund for Board of Trustees (pdf)

## 2.10.5 Reporting to TEA

School district budgets must be submitted to TEA via the Public Education Information Management System (PEIMS) transmission process as of the date established in the annual instructions for the system. TEA monitors for compliance at the district level only. This monitoring is a legal requirement to ensure mandatory expenditure levels in certain areas. In addition, amended budgets are reflected on the schedule comparing budget and actual results in the annual financial and compliance audit report. The requirement for filing the amended budget with TEA is formally met when the school district files its Annual Financial and Compliance Report.

### *Special Circumstances – American Recovery Reinvestment Act (2009)*

Due to the inclusion of HB 3646 Foundation money and Available School Funding in the State Fiscal Stabilization Fund (SFSF) grant application, it is necessary to include the SFSF funds applicable to Fund 266 with the general fund (fund 199) budget information for the PEIMS fall submission as long as that funding structure is in place.

## 2.10.6 Amending the Budget

Budget amendments are mandated by the state for budgeted funds reallocated from one function level, and state and/or federal project to another. These budget changes are usually the result of unexpected levels of expenditures in certain categories and must be amended in the budget for legal compliance. Other budget amendments are determined by the school board.

All budget amendments are required to be adopted by the last day of the fiscal year.

Based upon the level of detail at which the budget is adopted, budget revisions may or may not be required for reallocations within functional levels or programs. All necessary budget amendments must be formally adopted by the school board and recorded in the board minutes. To provide an adequate audit trail for budget amendments, they should include: the original budget amount by fund and function; the amount of the amendment by fund and function; and the amended budget amount by fund and function. A sample budget amendment in this format is shown in Exhibit 9. Even if budget changes do not have to be formally reviewed and adopted by the school board, major program or budget changes should be reviewed by district administrators to ensure the district's legal compliance with state expenditure mandates.

**Exhibit 9. Sample Budget Amendment**

## Budget Amendment Request for Fiscal Year 2XXX-XX

| | Original Budget | Amendment | Revised Budget |
|---|---|---|---|
| Amount | $120,000 | ($30,000) | $90,000 |
| Fund | 199 | 199 | 199 |
| Function | 12 | 12 | 12 |
| Object | *6119 | 6119 | 6119 |
| Org. | *068 | 068 | 068 |
| Program | *11 | 11 | 11 |
| Option | *n/a | n/a | n/a |

| | | | |
|---|---|---|---|
| Amount | $200,000 | $30,000 | $230,000 |
| Fund | 199 | 199 | 199 |
| Function | 11 | 11 | 11 |
| Object | *6119 | 6119 | 6119 |
| Org. | *068 | 068 | 068 |
| Program | *21 | 21 | 21 |
| Option | *n/a | n/a | n/a |

Originator: _____ Date: _____

Chief Business Official: _____ Date: _____

Board Approval:

Approved ( ) Denied ( ) Date: _____

* Optional budget detail for board approval that is determined by local policy.

# 2.11 Financial Forecasting and Planning

Financial forecasting is the practice of projecting the quantitative impact of trends and changes in a school district's operating environment on its future operations. It is, therefore, an integral part of a school district's ongoing planning efforts.

Financial forecasting is important for several reasons.

- First, forecasting *facilitates planning* efforts by quantifying the future costs/benefits of strategic decisions. Thus, budgetary priorities may be evaluated based upon their long-term impacts.

- Second, forecasting *makes clear trends, need, and issues* that must be addressed and evaluated in the preparation of budgets. For example, in a school district where enrollment forecasts reveal growing student populations, administrators recognize the need for increased resource allocations for additional staff and/or facilities.

- Finally, forecasting *enhances decision making* at all levels of district and school administration. Forecasts provide valuable insight into the future issues that may affect the school district allowing administrators to deal with them proactively, rather than reactively. It creates the framework for anticipatory management of the school district.

## 2.11.1 Financial Forecasting for Budget Development

Although financial forecasting is an ongoing process, it is most important as a component of budget development. The reason for this importance is twofold. First, forecasting, for both financial and related items (e.g. enrollment projections), creates a basis for assumptions made in the preparation of budgets. Forecasts of projected enrollments, property tax base and revenues, costs associated with salary adjustments, etc., are important elements in setting baseline budgetary guidelines for the school district. Second, forecasting provides fiscal impact analysis that may be integrated into the budget development process. Thus, current budgetary decisions may be evaluated for their long-term results.

Before forecasts are prepared, several tools for increasing their reliability should be considered. These tools were outlined in an article by Dr. Linda Miller and Dr. Maureen McClure in *School Business Affairs.* These seven basic tools are as follows:[3]

- *Clarify the intended purpose of the forecast.* The purpose and prospective audience of the forecast may require a certain data set and assumptions.

- *Match the future time frame with the purpose of the forecast.* Time frames for forecasts will vary according to the purpose (i.e., type) of forecast being prepared.

- *Ensure the accuracy of basic data.* Original source data should be used (if available) rather than extrapolated or summarized versions. These sources should be documented and verified if questions concerning data validity arise.

- *Specify the assumptions.* Assumptions should be based upon *real world* data rather than theory. These assumptions should be documented and made explicit when forecasts are presented/reviewed.

- *Be consistent in calculations.* Spreadsheet programs are recommended in preparing forecasts to ensure the accuracy and consistency of calculations.

- *Examine data critically.* A scan of the data may reveal anomalies or errors in the data that may adversely affect forecasts. Further, a comparison of initial values and forecasted values should be completed to ensure the reasonableness of forecasted values.

- *Recognize that forecasting requires insight and intuition.* Some variables or forecasting assumptions will always be a *best guess.* Forecasting experience provides a basis for these estimates.

A variety of financial and related forecasts are prepared during the budget development process. These forecasts include, but are not limited to:

- Student enrollment projections

- Revenue and expenditure projections

[3]Miller and McClure, "Reliable School Budget Forecasts: Seven Tools that Work," *School Business Affairs* (Vol. and No. unknown): 16-20.

- Assessed property value projections

- Debt service cost projections

### 2.11.1.1 Student Enrollment Projections

Projections of student enrollments include both the *number of* and the *type of* students expected. School districts must know how many students will be enrolled before they can do any meaningful planning. Enrollment projections drive many of the revenue and expenditure components of both annual operating and multi-year program and construction budgets. At the most basic level, enrollment projections determine the number of buildings and classrooms that a district needs. Further, the number of faculty needed is based upon the number of students enrolled. Beyond these basic purposes, however, enrollment projections also determine the functions of a district's educational programs. The types of individuals that comprise the student population are important in planning educational programs that meet their unique needs. The projection of student enrollments is important for both the next fiscal year and several subsequent fiscal years because time frames for educational programs, as well as capital building/consolidation programs, may be a year or more.

To meet the future needs of the district, administrators must have some insight into the number and types of students who will be enrolled. Thus, a school district needs to examine future enrollments to plan the work of its organization.

Student enrollment projections are not glances into the future. Rather, they are a valuable tool for making an informed estimate of the future composition and size of the student population. A number of assumptions concerning the growth/decline of the community must be made. If assumptions reflect the true pattern of growth in the community, a greater degree of accuracy may be attained in projecting enrollments. Assumptions developed in the following areas are helpful in preparing student enrollment projections:

- Immigration/emigration rates

- Employment rates

- Social conditions in the community

- Fertility rates

- Number of students attending private schools
- Drop-out rates of schools
- Ratio of births to deaths in the community
- Significant trends or shifts in the economic base of the community

Because these factors have a significant impact upon families, they are important in preparing accurate student enrollment projections. The data for these assumptions may come from a number of sources such as the Department of the Census and local employers. Historical experience with student enrollments is also critical both in projecting enrollments and in evaluating their accuracy. School district administrators may prefer a certain projection method over others based upon its reliability over a number of years. A number of methods for projecting student enrollments are used by individual school districts. Several are discussed in Appendix 3, Projection Methodology. Some school districts may even prefer to use the services of an outside contractor to prepare these projections.

During the budget development process, revenues and expenditures should be forecasted for the subsequent three to five fiscal years. This forecasting period captures the long-term impact of budgetary decisions necessary for evaluation. A five-year summary revenue and expenditure forecast from the Fort Worth Independent School District is shown in Exhibit 10.

**Exhibit 10. Five Year Budget Forecast**
**Source: Fort Worth Independent School District**

| | 1992-93 | 1993-94 | 1994-95 | 1995-96 | 1996-97 |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| Taxable Value | $10,897,145,062 | $10,862,820,571 | $10,828,839,326 | $10,795,197,892 | $10,761,892,873 |
| New Construction | 74,646,960 | 74,646,960 | 74,646,960 | 74,646,960 | 74,646,960 |
| Taxable Tax Base | $10,971,792,022 | $10,937,467,531 | $10,903,486,286 | $10,869,844,852 | $10,836,539,833 |
| Tax Rate/$100 Value | 1.285 | 1.345 | 1.405 | 1.465 | 1.525 |
| Total to Collect | $140,987,527 | $147,108,938 | $153,193,982 | $159,243,227 | $165,257,232 |
| Frozen Levy | 6,640,816 | 6,640,816 | 6,640,816 | 6,640,816 | 6,640,816 |
| 2% Uncollectible | (2,952,567) | (3,074,995) | (3,196,696) | (3,317,681) | (3,437,961) |
| Local Taxes | $144,675,777 | $150,674,759 | $156,638,102 | $162,566,362 | $168,460,087 |
| | | | | | |
| Interest Current Yield | $2,500,000 | $2,500,000 | $2,500,000 | $2,500,000 | $2,500,000 |
| Rental Income | 247,000 | 247,000 | 247,000 | 247,000 | 247,000 |
| Tuition | 1,002,000 | 1,002,000 | 1,002,000 | 1,002,000 | 1,002,000 |
| Local Grant Awards | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 887,000 | 887,000 | 887,000 | 887,000 | 887,000 |
| | | | | | |
| Total Local Revenue | $149,311,777 | $151,561,759 | $157,525,102 | $163,453,362 | $169,347,087 |
| State Revenue | $139,487,009 | $142,729,884 | $145,162,040 | $147,107,765 | $148,729,203 |
| Federal Revenue | $1,739,000 | $1,300,000 | $1,300,000 | $1,300,000 | $1,300,000 |
| Other Revenue | $50,000 | $50,000 | $50,000 | $50,000 | $50,000 |
| Total Revenue | $290,587,786 | $295,641,643 | $304,037,142 | $311,911,127 | $319,426,290 |
| | | | | | |
| Expenditures: | | | | | |
| 6100-Payroll Costs | $244,436,962 | $249,325,701 | $254,312,215 | $259,398,460 | $264,586,429 |
| 6200-Contracted Services | 20,629,997 | 20,836,297 | 22,069,406 | 23,417,321 | 24,891,438 |
| 6300-Supplies & Materials | 13,106,013 | 13,237,073 | 13,369,444 | 13,503,138 | 13,638,170 |
| 6400-Other Operating Costs | 5,481,769 | 5,481,769 | 5,481,769 | 5,481,769 | 5,481,769 |
| 6500-Debt Service | 2,716,519 | 2,716,519 | 2,716,519 | 2,716,519 | 2,716,519 |
| 6600-Equipment | 7,735,571 | 7,735,571 | 7,735,571 | 7,735,571 | 7,735,571 |
| Total Expenditures | $294,106,831 | $299,332,930 | $305,684,924 | $312,252,778 | $319,049,896 |
| | | | | | |
| Effect on Fund Balance | ($3,519,045) | ($3,691,287) | ($1,647,782) | ($341,651) | $376,394 |

## 2.11.1.2 Revenue Projections

Projections of revenues from three major sources should be made. These revenue sources are state aid, federal aid and local property taxes. State aid from the FSP contains three components: (1) Tier I allocations, (2) Tier II wealth equalizations, and (3) other aid. The calculations for these sources are discussed in the Revenue from the Foundation School Program section. There are several critical links, however, between the forecasts discussed in this section and the calculation of state aid. First, Tier I allocations are dependent upon the student enrollment projections discussed in the Student Enrollment Projections section

above. Tier II allocations are based upon both the local tax effort, i.e., assessed property values, tax rates, etc., and enrollment projections.

The local tax effort factors are the same as those used to project local property tax revenues. Thus, the projection of state aid and local property tax revenues are closely related. Projecting state revenue over a three to five year period may be difficult because information concerning the state's basic and special allocations per student is not readily available. The effort to make such forecasts is valuable, however, in assessing the impact of budgetary decisions in future years. For example, local property tax rates are a major determinant of Tier II revenues; therefore, projections that reflect future tax rate changes aid in determining the impact on future revenue streams. Current year budgetary decisions, therefore, may reflect both their present year's and future years' effects.

Local property tax revenue projections should employ the following factors:

- Assessed property values
- Property value growth/decline rates
- Applicable tax rates
- Historical collection rates
- Applicable state wealth per student limitations
- State mandated tax rate rollback thresholds (see Appendix 4)
- Delinquent tax collections

Analyses of local demographic and economic trends, particularly in projecting property value growth/decline rates, should be used to supplement the local property tax revenue projections. This analysis should include an examination of broad economic elements such as overlapping tax rates and local tax rate/debt ceilings (for truth-in-taxation guidelines see Appendix 4). Although the projection of state aid may be complex, local property tax revenue forecasts, in most cases, are rather straightforward and can be done with great accuracy. In fact, several scenarios with various tax rates may be examined to evaluate the benefits/limitations of each.

See the current State Funding Worksheet under School Finance on the website.

Forecasts of federal aid complete the revenue picture. In most school districts, the majority of federal aid is funding for school nutrition programs. Forecasts of these revenues are based upon enrollment projections and historical participation rates of students who qualify for the program. Federal grants normally are budgeted on a multi-year basis with known revenue streams making these forecasts less subject to error than those with uncertain future levels of funding.

## 2.11.1.3 Expenditure Projections

Expenditure forecasts generally focus on three components:

- Capital costs composed of multi-year construction projects, annual capital improvements/replacements and capital purchases such as equipment
- Operating costs composed of payroll, professional and contracted services, supplies and materials, operating costs such as utilities, debt service and capital outlay
- State mandates such as the goal to reduce electric consumption and 1984 House Bill 72 which reduced class size from 25 to 22 students per teacher in grades 1 through 4

### *Capital Costs*

Multi-year capital costs are discussed in a subsequent section on that topic. These costs are estimated based upon the school district's building program which depends on the strategic planning process and student enrollment forecasts.

Forecasts of *capital improvement costs* are based upon a maintenance planning process that is a component of overall district planning. This process should determine the needs for capital improvements/replacements for existing campus facilities and other fixed assets. Information for maintenance planning may come from a variety of sources including the district's strategic planning process, periodic evaluations by the district's maintenance personnel, or an outside (contracted) maintenance needs review. Whatever the source, such a planning exercise has significant benefits for the district. Rather than relying upon *ad hoc* estimates of capital needs, the district has a reliable tool for estimating such costs and for planning these resource allocations.

Finally, *costs of capital purchases* must be considered. These estimates should be based upon the school district's capital planning process. For example, a district's strategic plan may include a program for the purchase of equipment for campus technology programs. These costs (which should have been estimated during capital planning) should be included in the district's forecasts of capital purchases.

The actual capital costs associated with these projections will be determined largely by the individual requirements and operating environment of the district; however, they should all have been estimated in the building, capital improvements/replacements, and capital purchases planning processes mentioned above. There is an implicit link between projections of capital and operating expenditures. The expansion/consolidation of campus facilities leads to related increases/decreases in campus operating expenditures; therefore, operating expenditure forecasts should take into account these facility changes.

## *Operating Costs*

Operating expenditure forecasts should project costs for the following major expenditure categories: (1) payroll, (2) professional and contracted services, (3) supplies and materials, (4) other operating costs, (5) debt service, and (6) capital outlay. Student enrollment projections are critical in estimating many of these expenditures. Eighty percent or more of annual operating expenditures are the costs of employee salaries and benefits, and these costs are based primarily upon enrollment projections and applicable state mandates concerning class size, minimum salaries, etc.

Other expenditures such as supplies and materials also may be based upon student enrollments. The completion of expenditure estimates for costs not directly related to enrollment levels such as utility, insurance and maintenance costs are simply calculated. Most of these costs are projected based upon historical data incorporating anticipated volume/rate changes that are particularly important to augment historical data. For example, if a school district has recently added facilities, operating costs for these facilities must be factored into expenditure projections.

Lastly, debt service costs must be projected. These projections should be based upon debt repayment schedules created when bonds/other debt is issued.

## *Methods of Estimation*

The Texas Association of School Business Officials (TASBO) has identified several methods to estimate expenditures. These methods are:

- *Requirements* - Estimates are based upon unit prices times the quantity needed.

- *Extrapolations* - Estimates are based upon historical and current expenditure trends.

- *Correlations* - Estimates are based upon relationships between variables.

- *Fixed Limits/Standard Allocations* - Estimates are pre-established on a unit/maximum or other basis.

No single best method for estimating all expenditures exists; however, certain methods are preferable for estimating certain expenditure categories. For example, although extrapolation from historical data is a very useful method for estimating utility costs, the requirements technique may be more useful for estimating staff costs for regular and special education programs. Recommended applications of these methods for estimating salary, insurance, and supplies and materials expenditures are shown in Exhibit 11.

## *State Mandates*

To complete expenditure forecasts, an analysis of applicable state mandates should be conducted. State mandates can have a dramatic impact on certain types of school district expenditures. For example, HB 3693 passed by the 80th Legislature required the board of trustees to establish a goal to reduce the school district's annual electric consumption by five percent each state fiscal year for six years beginning September 1, 2007. This requirement was repealed by SB 300 in the 81st Legislature which changed the requirement to a long-range energy plan to reduce the electric consumption.

Another example -- in 1984, House Bill 72 reduced class size from 25 to 22 students per teacher in grades 1 through 4. This mandate had to be phased in by school districts between 1985 and 1989. Thus, expenditures for teaching staff increased in those years. State mandates of this significance often are accompanied by implementation periods as in the 1984 House Bill 72. Minor state mandates may require implementation within the following fiscal year. Although school districts cannot predict legislative actions, districts should study bulletins and other information disseminated by TEA to anticipate future state mandates.

**Exhibit 11. Recommended Applications of Expense Projection Methods**
**Source: Texas Association of School Business Officials**

## Estimating Expenses for Salaries/Personnel

Considerations:

- Are new staff required?
- What are current salary levels?
  - Are schedules appropriate/competitive?
  - What are experience/step placements of staff?
- What are the peripheral expense issues?
  - - Benefits
  - - Supplies
  - - Overtime
  - - Facilities
  - - Furniture & Equipment

| Methods/Approaches | Used to Determine |
|---|---|
| Requirements | Staff for new programs |
| Extrapolation | Overtime costs |
| Standard Allocation | Salary schedule changes |
| Correlation | Staffing based upon enrollment |

## Estimating Expenses for Supplies/Materials/Other

Considerations:

- Are there changes in the number or scope of programs/users?
- Have changes in the market affected prices?
- What quantities district-wide are being requested?

| Methods/Approaches | Used to Determine |
|---|---|
| Requirements | Additional supplies needed for new programs |
| Extrapolation | Added costs due to increased program usage |
| Standard Allocation | Per student or unit allocations |
| Correlation | Supply/repair costs relative to equipment purchases |

**Exhibit 11. Recommended Applications of Expense Projection Methods (continued)**

## Estimating Expenses for Insurance Programs

Considerations:

- What are the historical and projected loss/claims to premium ratios?
- Can competitive bids be obtained?
- Can the district increase deductibles to reduce premiums?
- Has the number of insured employees, buildings, vehicles, etc., been increased?
- Can the district "lock-in" a maximum price increase from its current carrier?

| Methods/Approaches | Used to Determine |
|---|---|
| Requirements | Additional coverage for new staff, buildings, vehicles, etc. |
| Extrapolation | Impact of increased frequency of claims |
| Standard Allocation | District contributions to health insurance |
| Correlation | Premium reductions relative to deductible increases |

### 2.11.1.4 Base Assumptions

In preparing revenue and expenditure forecasts, some base assumptions must be made. These may include assumptions concerning levels of state and federal funding, inflation rates, growth rates, class size, fund balance levels, etc. An examination of a number of data sources may be helpful in developing these assumptions. These sources include local residential construction trends, employment data from large employers, census data and funding information from the state and federal governments. Historical data may be used to aid in the development of these assumptions as well. These assumptions should be developed and reviewed by district administrators. When the budget process is reviewed (and approved, if applicable) by the board, such base assumptions should be made explicit. This information allows the board to understand those forecast areas that may be revised at some future date due to changes in their base assumptions. A list of such assumptions used to develop the five year forecast is shown in Exhibit 12.

**Exhibit 12. Sample Assumptions for Five Year Forecast**
**Source: Fort Worth Independent School District**

(1) 2000-01 budgeted amounts adopted by Board of Trustees.

(2) Taxable value for property taxes is 1% reduction from prior year plus construction.

(3) New construction assumed same as 2000-01 throughout forecast.

(4) Tax base is taxable value plus new construction.

(5) Tax rate is 2000-01 actual after consideration of the effective and rollback rates (marginal difference between 2000-01 actual and $1.50).

(6) Frozen levy is held stagnate throughout forecast.

(7) Uncollectible taxes are calculated at 2% of total to collect plus the frozen levy.

(8) Interest income, rental income, tuition, local grant awards, and miscellaneous are held at the same amount throughout the forecast.

(9) State revenue is increased in the following by projected increasing student populations by 800 in 00-01, 600 in 01-02, 400 in 02-03, and 200 in 03-04.

(10) Federal revenue is lowered by loss of impact aid in the 2001-01 year and then held at the same for subsequent years.

(11) Other revenue is held the same.

(12) Payroll is increased by 2% each year to cover pending national topics of health care reform, governmental agencies paying Medicaid, and additional teachers for projected enrollment increases.

(13) Contracted services assumed a 1% increase yearly over prior year other than utilities which assume a 20% annual increase.

(14) Supplies assumed to increase 1% due to increases in students, teachers, and staff.

(15) Other expenditures, debt service, and equipment assumed no increase from base year 2000-01.

## 2.11.2 Post-Budgetary Development Forecasts

Following the development of the annual budget a cash forecast and a fund balance forecast anticipating the impact of certain budgetary decisions are prepared.

### 2.11.2.1 Cash Forecasts

The cash forecast is critical to ensuring that the school district will not experience a fiscal crisis from a cash shortage. Because cash shortages may make a school district unable to meet its payment obligations, shortages can affect its bond rating. An accurate cash forecast enables a school district to anticipate potential cash shortages and take preemptive corrective actions. Cash forecasts should be developed for the fiscal year on a monthly (perhaps biweekly as well depending upon payroll periods) basis. These forecasts should, at a minimum, consider the timing of federal and state aid payments, local property tax levies and collections, interest earnings and disbursements. Cash forecasts may also include bond proceeds and short-term loan proceeds/disbursements for those school districts involved in capital projects or short-term borrowing. The cash forecast will reveal needs for short-term borrowing resulting from an anticipated cash shortage.

Beginning with fiscal year 2007/08, there will be no deferral of the August payment to September as in previous years. Also, previous backlogs in federal funding payments have been reduced. A sample cash flow spreadsheet is available in Section 1.2.1 of the FAR Module.

Note: This short-term borrowing will make necessary the budgeting of a related interest expense in the following fiscal period. For example, a school district must borrow $1 million to avoid a cash shortage due to the timing of state aid payments. The note is for ten months with an annual interest rate of 12 percent, and the note is to be repaid in the next fiscal year. Thus, when the note is repaid, the school district will incur an interest expense of

$100,000. A $100,000 expenditure must be budgeted for this interest cost in the next fiscal year.

## 2.11.2.2 Fund Balance Forecasts

Fund balance forecasts for all governmental funds and the debt service fund should be developed on a periodic basis determined by expenditure requirements during/following budget development. These forecasts ensure that a school district will remain in compliance with state and local fund balance requirements and applicable debt service fund balance requirements.

Planning for Multi-Year Construction and Grant Programs Planning for multi-year programs and projects provides for ongoing district operations and *special* projects areas normally not included in strategic and other planning processes. The following steps are basic to the planning process for both annual and multi-year plans.

- *Review the stated goals and objectives of the school district.* A school district's goals and objectives should be the basis for its activities and operations. Although they normally are developed during the strategic planning process, the goals and objectives should be reviewed for appropriateness on a periodic basis.

- *Conduct formal and/or informal needs assessments.* Most strategic plans will include one or more needs assessments. The criteria that are used for these assessments normally are developed locally; however, some granting agencies may require that certain criteria are used. A methodology that provides objective measurement of the needs of the unit being assessed, i.e., a school district, a campus, a special population, etc., should be used. Financial and other forecasts, e.g., enrollment projections, are particularly important in identifying the needs of the district.

- *Design programs to attain the school district's goals and objectives based upon the results of the needs assessment(s).* The needs assessment process should identify and prioritize the needs of the district. Based upon the results of this process, the district should develop program plans that meet its needs. Program planning should use an integrated approach to prevent duplication of effort, ensure the efficient use of resources and ensure that all identified needs are addressed.

- *Prepare program budgets to support the program implementation plans.* With a program plan in place, a program budget can be developed. The traditional budgetary approach for these programs has been to appropriate funds for all the costs of the

program/project in its first fiscal year. At year-end this appropriation expires, and funds have to be reallocated for each subsequent year of the program/project. Such an approach is unnecessarily complex and may distract administrative and board focus from important budgetary issues. To avoid these problems, the development of multi-year program budgets, whether for capital or special programs, is recommended. For example, if a capital construction program is expected to last for five years, a five-year construction program budget should be developed.

# 2.12 Budgeting for Grant Programs

Local, state and federal grant program funds are received from a granting agency to fund *special programs or projects.* They are distinguished from funds received from local, state, or federal sources for ongoing district operations. For example, funds received as part of a school district's foundation fund entitlement are not considered to be program grant funds and are not part of this discussion. These categorical entitlement funds are accounted for in the general fund and are discussed in the previous sections on the preparation of annual budgets.

## 2.12.1 Preparation of Grant Program Budgets

Grant funding should be considered part of the district's overall funding picture. Although grants are normally a small portion of a district's revenues, they are unique and require special treatment. The unique character of grant funds results from both the difference in the authority over grant funds and their restriction to specific purposes. Once program planning has been completed, specific program budgets should be prepared. The steps for preparing grant applications/budgets are comprehensive.

### 2.12.1.1 Funding Options

When a tentative budget has been established, the school district should investigate funding options. Funding for a program may come from multiple sources. For example, a plan to implement an accelerated education program may include funding from local taxes, state foundation funds, and one or more federal grants. As funding options are evaluated, the initial budget plan may have to be adjusted to reflect more realistic funding levels.

### 2.12.1.2 Grant Application

If local, state, or federal grant funds will be requested to fund all or part of a program, grant applications must be prepared. It is critical that the school district's planning efforts dictate the decision to request grant funds, rather than vice versa.

When the grant application is developed, the grant budget should be based on how the grant funds can best aid in the implementation of the program plan. Some grants have legal restrictions that affect how the grant funds can be used. The granting agency may

have rules that limit certain types of expenditures. Granting agencies may have different funding periods that affect the way expenditures are assigned to a specific grant.

As estimated expenditures are determined they should be categorized as specified by the granting agency. For example, the capital outlay category on a federal grant application generally includes items with a unit cost of $5,000 or more. A school district's local policy may capitalize items with a lesser unit cost (for example, $1,000). Some grants may require a category or element that is not identifiable from the mandatory account code structure. A school district may have to designate a local code to track such an expenditure for reporting to the granting agency. If the granting agency's categories are not consistent with the school district's account codes, a conversion table may have to be established.

A frequently overlooked area in the development of a grant budget is the cost of employee benefits. If personnel costs are included in the grant budget, the cost of related employee benefits also should be included. These costs include workers' compensation, unemployment compensation, health insurance, matching FICA contributions and matching Teacher Retirement System contributions.

### 2.12.1.3 Application Review

Most granting agencies have "supplement, not supplant" rules which prevent grant funds from being used to replace existing resource allocations. Examine the entire funding picture for the program to ensure that grant funds are not being used to supplant local funds. The federal comparability of services requirement is applicable also to some grants. For example, for ESEA Title I funding, the school district must budget and expend non-grant funds equitably among the various Title I and non-Title I campuses.

### 2.12.1.4 Application Submission

Most granting agencies have deadlines for grant applications. Some granting agencies may require that the application be postmarked by a certain date. Other agencies may require that the application be received by a certain date. Adherence to these deadlines and related rules is necessary.

### 2.12.1.5 Grant Approval

The granting agency usually issues a notice of grant award (NOGA) (approval document). Compare this approval document with the grant application to point out budget revisions the granting agency may have made before issuing the approval. The budget recorded by the school district should be the version approved by the granting agency.

Normally school districts may not incur expenditures attributable to the grant prior to the later of (1) the approval date on the notice of grant award or (2) the first day of the grant period. Some exceptions may exist. For example, for some grant programs, TEA allows expenditures to be incurred as of the date the grant application is "stamped in" at TEA (or the first day of the grant period, if later). But, a school district risks the application being changed before approval. If this occurs, previously incurred expenditures may be ineligible for the grant. In exceptional cases, federal regulations permit TEA to allow pre-agreement costs. Pre-agreement costs are otherwise approvable expenditures that the school district incurs before the grant application is received by TEA.

## 2.12.2 Grant Types and Other Issues

Although the grant application process discussed above is the basic one for most grants, the process may vary depending upon type of grant and the granting agency. Besides these differences, there are a few other issues that distinguish grants from other types of district revenues. These include differences between district fiscal years and grant periods, indirect cost allocations, matching considerations, and Shared Services Arrangement (SSA) or Joint Authority grant programs.

### 2.12.2.1 Grant Types

There are two basic types of grants, non-competitive (or entitlement grants) and competitive grants. Non-competitive grants are grants that a school district is "entitled" to receive based upon certain established criteria. For example, school districts are notified annually that they are entitled to receive ESEA Title I Part A - Improving Basic Programs funds. The amount of the funding is based upon low income counts from national census data. A school district must apply for the funds to receive them. But, generally, if a school district submits an appropriate application, it receives this "entitlement." In contrast, competitive grants are usually awarded on the basis of points systems. These points are earned by the applicant based upon its satisfaction of a variety of factors/criteria established by the granting agency.

#### *Non-competitive Grants*

For non-competitive grants, school districts are first notified by the granting agency of a tentative entitlement amount. Usually grant applications are submitted based upon the tentative entitlement amount. Later, school districts are notified by the granting agency of the maximum entitlement amount. For TEA entitlements, maximum entitlement amounts are determined after TEA receives its grant from the U.S. Department of Education.

The maximum entitlement amount plus roll-forward funds (if applicable) constitute the total funds to be budgeted for a grant period. Roll-forward funds are amounts not used in the previous grant year that are allowed to be carried over into the new grant year. Those grants with roll-forward provisions may set limits for how much and/or how frequently amounts can be rolled forward. Waivers of these limitations may be allowed. Some entitlement grants may have minimum budgeting provisions that require a school district to budget a minimum percentage of its entitlement or forfeit the entire entitlement. For example, the ESEA Title I Part A - Improving Basic Programs grant requires a school district to budget for at least 85% of the entitlement plus 100% of roll-forward funds.

A school district may be able to fund an entire program with an entitlement grant; however, the identified needs of a program may exceed the school district's entitlement. For example, a school district may have designed a program with a budget of $100,000, but have an entitlement of only $89,000. In such a case, the school district may budget $11,000 from the general fund for the rest of the program. In this situation, school districts should analyze carefully sources that will fund specific parts of the program.

## *Competitive Grants*

Competitive grants are certain to be awarded less often than non-competitive grants. The granting agency may have a specific number of grants to award for specific dollar amounts, or it may have a specified amount of funds to be awarded that will be distributed to an unknown number of grantees for varying amounts. Most competitive grants are awarded based upon an applicant's meeting of established criteria. Points are usually assigned to each criterion, and each application is assigned points based upon how an applicant meets each criterion. Grants are then awarded to the applicants with the most points or to all applicants with a certain number of points.

Before completing a grant application for a competitive grant, it would be wise to discover as much information as possible about the intent of the granting agency. Are there a specified number of grants to be awarded? Are the anticipated award amounts predetermined, variable within a specified range, or variable with no specified range? How will points be awarded? Knowing this information should help the school district prepare the most appropriate grant application and increase the probability of receiving a grant award.

## 2.12.2.2 Fiscal Year Differences

Grant periods frequently do not coincide with a school district's fiscal year. The fiscal year for Texas school districts covers a twelve month period that begins July 1 and ends June 30, or begins September 1 and ends August 31; however, a grant period may be July through June or October through September cutting across a district's fiscal years. For example, an educational program budgeted for the fiscal year may be funded for ten months from a current ESEA Title I Part A - Improving Basic Programs grant (September through June) and for two months from next year's ESEA Title I Part A - Improving Basic Programs grant (July through August). In addition, some grants may be for two or three years. Grant application budgets and award documents present budget data for the entire grant period. A comparable multi-year program budget should be prepared by the district to account for grant revenues and program expenditures.

The grant budget information included as a supplement in a school district's official budget document should, at a minimum, show budget information for the *grant period.* It might also show the portion of the grant budget applicable to the school district's *fiscal year*. It may be beneficial to prepare schedules that present the program budget and a breakdown of the budget by funding source. The schedules should clearly identify whether the reported periods are grant periods or the fiscal year.

## 2.12.2.3 Indirect Costs

Many grants allow for indirect cost allocations. This does not change the amount of grant awards. Indirect cost is a budgeted item. Once earned, indirect cost allocations are recorded as revenue in the general fund. A grantee may elect to use the indirect cost allocation to cover the operating expenditures and other costs, including administrative costs and fixed costs, incurred in administering the grant. The indirect cost allocation may be based on a specified percentage of the award. For federal grants, indirect cost allocations are based upon an indirect cost rate. This rate is calculated annually by TEA based on the *Schedule of Expenditures for Computation of Indirect Cost* in the annual financial report. See the Cost Accounting section in the Financial Accounting and Reporting module for further information.

## 2.12.2.4 Matching Funds

Some granting agencies require that matching district funds be budgeted. When matching funds are required for grant receipt, they should be budgeted in and expended from the fund that provides the match. They should not be budgeted in the special revenue fund where the grant is recorded. If possible, the account code structure, using local option

codes, should allow identification of these matching expenditures. If not, supplementary records should be maintained to track the expenditures.

Some granting agencies that require matching funds allow some or all of the matching requirement to be satisfied with in-kind expenditures. In-kind expenditures generally are not recorded in the school district's general ledger. School districts should, however, maintain supplemental records to track in-kind expenditures. The granting agency may require that supplementary schedules in the annual financial statements include a footnote discussing the in-kind match.

### 2.12.2.5 Shared Services Arrangement Grant Programs

Some grant programs are established as a joint agreement between two or more school districts or an education service center (called either a Shared Services Arrangement or Joint Authority Agreement). One of the school districts usually is named as the fiscal agent of the project. This designated fiscal agent should budget and account for the Shared Services Arrangement transactions in the special revenue fund that is designated for fiscal agents of SSAs. The member school districts (including the fiscal agent school district) should budget and record their appropriate share of the cooperative grant revenues and expenditures in the Special Revenue Fund that is designated for school districts or member districts. The fiscal agent school district should provide the appropriate budget information for the SSA grant program to the member school districts.

## 2.12.3 Grant Program Budgets in the Annual District Budget

Inclusion of budgets for local, state and federal grant programs is not required for a school district's officially adopted annual budget; however, districts may include budget information for grant programs as a supplement to the official budget. Some districts may have local policies that *require* that grant program information be included in the budget document as supplementary information. If a district does have a policy that requires the approval of grant budgets by the school board, the level of detail at which they are approved is left to the discretion of the local school board. The authority to approve a budget or a budget amendment for a grant program, however, lies with the granting agency and not with the district's board.

School districts should establish and use budgets for grant programs even though the budgets are not part of the officially adopted budget. The budget is a key ingredient in planning, controlling, and evaluating a grant program. The budget is a financial blueprint

for implementing the grant program's goals and objectives. It allows for accounting control of the project by limiting the amount and type of expenditures to those that have been approved. Finally, it provides a basis for evaluating and reporting actual and budgeted amounts. This information is useful to the school district as it reflects the performance of programs.

## 2.12.4 Monitoring Grant Budgets

Throughout the grant period, the budget should be used as a control measure. The budget, as approved by the granting agency, must be monitored as expenditures are incurred. Some grants allow actual expenditures to exceed budgeted amounts for some categories of expenditures. For example, TEA allows ESEA Title I Part A - Improving Basic Programs grantees to over-expend an approved expenditure category (object at the second level) up to 25% of the approved grant budget if other categories are under-expended an equal amount. In some expenditure categories, however, actual levels may not deviate from the approved budget without prior approval (for discretionary grants the budget variance allowance is 10%).

Program directors, financial managers and other appropriate staff should have access to periodic statements comparing actual expenditures and approved budgets. A reporting system that allows the appropriate staff to review the status of program expenditures frequently enough to prevent actual expenditures from exceeding budgetary limits may be established. Alternatively, school districts may have internal reporting systems that automatically refuse obligations that exceed the approved budget.

## 2.12.5 Amending Grant Budgets

As the grant period progresses, a request for a budget amendment from the granting agency may be necessary. Budget amendments should be requested *before* expenditures that exceed acceptable limits are incurred to ensure that the grant remains in compliance with the granting agency's guidelines. In addition, expenditures requiring a budget amendment generally are not allowable if the obligation is incurred before the approval of the amendment.

Most granting agencies require that budget amendments be requested a certain time before the end of the grant period. All approved amendments should be recorded in the accounting records either by memorandum entry or by journal entry. As with the originally approved budget, an amendment should not be recorded until the amendment has been

officially approved. The accounting records should provide a complete record of the approved grant budget and all amendments.

# 2.13 Budgets for Multi-year Construction Projects

The development of multi-year construction budgets has two fundamental stages. The first stage is extensive planning to identify the school district's facilities needs. The planning process outlined in the previous section on Financial Forecasting and Planning satisfies this planning need. The planning group for construction projects may be one created specifically for capital planning or part of a strategic planning effort. In addition, the identification of capital needs may come either from a district's maintenance staff or from a contracted evaluation. These evaluations probably will identify the costs (at a macro level) for a planned building program. Based upon these inputs, a district then decides whether or not to pursue a construction program. Once a decision is made, the second stage of budget development begins.

## 2.13.1 Preparation of Construction Project Budgets

After a school district decides to initiate a building program, an exploration of funding mechanisms should be conducted. Most school districts use some form of bonded debt to finance building programs; however, districts may fund building programs with accumulated operating funds. In school districts where bond financing is used, the bond initiative should be reviewed and approved by the school board before the initiative is placed on the ballot. The size of the bond initiative for a building program typically is determined by estimates of costs generated by the planning process which are determined by the educational specifications needed. In some cases, detailed project budgets may not be prepared until funding has been secured; therefore, districts should use a general proposition for the building program. For example, a proposition might take the form of "to construct school buildings" in general rather than "for the construction of two primary schools and one secondary school." This general proposition allows for the revision of building plans as the planning process continues and avoids potential noncompliance with bond authorities when revisions are needed. Depending upon the local political environment, bond initiatives may require detailed cost estimates to be completed before the bond issue is placed on the ballot. In addition, great specificity in the intended use of bond proceeds may be necessary for passage.

As a school district explores funding mechanisms and prepares a bond initiative, the district should use the services of a financial adviser and/or bond counselor to provide financing and legal advice. Financial advisers and bond counselors may be consulted on the size, marketing and selling of bond issues. In addition, the district should recognize tax rate limitations or debt ceilings that may affect the amount of bonded debt that can be undertaken (see Appendix 4 for more information concerning truth-in-taxation guidelines).

When funding has been secured, detailed project budgets should be developed. Individual budgets are needed for each project and should be prepared for the duration of the project. Budgets such as these are useful for monitoring each project over its full life. Although cost estimates developed during the planning process may have been used to determine the size of the bond initiative, the actual budgets for projects require more consideration and detail. Architects, contractors, campus and district staff, and others may become involved in preparing these budgets. Shifts in student populations, additional facility or site requirements, etc., may result in a project budget significantly different from the cost estimates that were developed during the planning process. Exhibit 13 shows a list of planning resources and planning tasks which school districts may use as a reference in planning for a bond issuance.

## 2.13.2 Approval of Construction Project Budgets

Multi-year construction project budgets should be presented to the school board for approval, and the board should approve the total amount of the building program rather than just the amount to be expended in the current fiscal year. Formal board approval of project budgets should be recorded in the board minutes in accordance with bond authority provisions. The level of detail at which capital project fund budgets are approved is left to the discretion of the local school board. School districts are *not* required to include capital project fund budgets in their officially adopted annual budgets nor are they required to submit capital project fund budgets through PEIMS. Districts should be aware of federal government guidelines concerning arbitrage rebates when construction project budgets/bond proposals are considered. Accounting treatment for arbitrage rebates are discussed in detail in the Financial Accounting and Reporting module of this *Resource Guide.*

## 2.13.3 Monitoring Construction Project Budgets

Construction projects often span several years making monitoring more complicated than that of the annual operating budget. The recommended approach is to monitor construction budgets at the individual project level using a multi-year format. Such management of the project can be conducted using a simple spreadsheet that provides budget and actual data for each year of a project over its full life. An integrated view of the total project budget is revealed and expenditures may be evaluated.

## 2.13.4 Amending Construction Project Budgets

Construction project budgets may be revised due to change orders, etc., during the life of projects. All significant project changes/revisions should be adopted formally by the board and recorded in the minutes. This formal approval provides a clear informational trail of all bond fund uses. The school district remains in compliance with its obligations to bondholders and is able to provide necessary documentation to bond counselors/financial advisers. Revisions to building project plans that are adopted by the board should be conveyed to bond counselors to ensure compliance with bond provisions. If the changes in a construction project should exceed 25 percent of the total cost of the project, state law requires that the project be opened to re-bidding. Further details of this mandate are given in the Purchasing module of this *Resource Guide.*

## 2.13.5 Reporting to Management

Construction project budgets should be monitored on a periodic basis and reviewed by district administrators. A multi-year format probably will be the most effective device for this monitoring since it presents an integrated view. Periodic reports on the progress of each project also should be given to the school board. The frequency of these reports is determined by the level of activity of building projects and the occurrence of significant budgetary issues. Bond counselors and financial advisers also should be informed periodically of the progress of building projects using bond funds.

**Exhibit 13. Planning Resources and Planning Tasks for Bond Issuance**
**Source: Texas Association of School Business Officials**

**Planning Resources:**

- Development of Capital Improvement Plan (CIP)
  - Actual and estimated enrollment
  - Facility capacity analysis
  - Project time line
  - Presentation resources
- Annual Budget Development - can be a source of information concerning district facility needs.
  - Facility needs - major maintenance projects which have not been funded out of district operating funds.
  - Staff input
- List of Major Maintenance Needs - should be financed through district operating funds or added to bond issue.
  - Planning process (continuous improvement lists)
  - Tax limitations and state funding
  - Allocations/Decision process
  - Architectural support

**Exhibit 13. Planning Resources and Planning Tasks for Bond Issuance (continued)**

**Planning Tasks:**

- Bond planning calendar showing a timeline of events
  - First item: Board authorization for district staff to begin work on bond financing process
  - Defines critical decisions to be made and who will make those decisions.
- Update the CIP
  - Prepare an economic outlook - include information about district property values, changes in values, tax limitations, etc.
- Issue a Request for Proposal (RFP) for the services of a financial advisor and bond counselor.
- Prepare information (based on advice from financial advisor) needed to establish district bond rating.
- Formulate list of capital construction/improvement projects to be considered for bond financing.
  - Prepare list of good educational specifications
  - Involve principals and other management staff in planning
  - Define costs associated with each project including:
    - -- Asbestos abatement
    - -- Americans with Disabilities Act
    - -- Architectural fees
    - -- Engineering fees

-- Construction fees

-- Site costs

-- Environmental costs

-- Allowance for furniture and equipment

-- Technology

- Organize a citizens committee - to make recommendations to the school board concerning which projects should be pursued. These individuals will be instrumental in the campaign for voter approval of the bond financing.

  – Carefully choose the members from such sources as the local PTA, the Chamber of Commerce and other civic groups.

  – Define the role of committee members and the decision process they will utilize in reaching consensus on board recommendations.

  – Consider the use of subcommittees for various planning/decision areas.

**Exhibit 13. Planning Resources and Planning Tasks for Bond Issuance (continued)**

- Begin a marketing campaign

  – Assemble a collection of information and materials produced during the bond financing effort. The collection may be used to prepare presentations, brochures, newspaper releases, etc.

  – Ensure that district staff only generates information to help educate the public regarding bond financing issues. The district *must not* expend tax monies on materials that are considered political.

  – Use public forums to provide information and materials to citizens.

  – Provide information to staff. They can vote and can encourage others to do so.

# Appendix 1 - Sample Budget Transmittal Letter and School Based Budgeting Guidelines Sample

**Appendix 1. Sample Budget Transmittal Letter**
**Source: Adapted from Fort Worth Independent School District**

From the Superintendent...

The board of education has recently renewed its commitment to school-based[4] decision making as a vehicle to increase student achievement. As a result of this renewed focus, schools will have access to additional monies which traditionally have been centralized. With these increased resources, come increased responsibility and accountability for schools and central office staff. Schools are responsible for making informed decisions which support increased student achievement and are accountable for outcomes. Central office staff is responsible for providing technical assistance, resources and expertise in support of the school-based decision making process.

Over the next few years, we will be working to increase both the level of school-based budgeting, including staffing, and the quality of decisions related to the allocation of these funds.

Groups of teachers, principals, central office staff, and parent and community representatives are now working to: assess the current level of school-based decision making and develop indicators of quality; plan for, develop, and implement a variety of professional development activities for all staff and school-based decision making teams; and to create and disseminate text and video material which focus on effective school-based decision making models and practices. As a result of the efforts of these individuals and your participation and support, school-based decision making will result in increased levels of student achievement.

Information in this manual is intended to assist you and school-based decision making teams in the development of school-based budgets.

[4]School based as used in Appendix 1 is synonymous with site-based used elsewhere in the *Resource Guide*.

## Appendix 1. School-Based Budgeting Guidelines Sample
## Source - Adapted from Fort Worth Independent School District

Overview

The materials in this manual represent an expansion of the concept of localized (school-based) decision making to include school-based budgeting. The general intent of school-based budgeting is to provide greater flexibility and choice to schools in the allocation and utilization of the districts' financial resources.

As always in the budget process, many questions remain to be answered. Each of us is aware of the uncertainty surrounding the financing of public education. It is too early to determine with any degree of certainty the level of funding that will be available; however, budget planning must proceed. If funds do not flow as anticipated, some needs may have to be deferred for future consideration. The task before each of us, then, is to match prioritized needs to projected financial resources.

Financial resources which were decentralized in last year's budget will remain decentralized. In addition, additional monies will be decentralized. The decision to decentralize further in the future is based upon the following premises:

- With increased school-level funding comes the responsibility for ensuring that the programs in which monies have been decentralized receive appropriate funding at the school level to meet student needs and school and district goals.

- Input from members of the school community, including department/grade level personnel, management teams, support staff and others is essential in making the most informed decisions.

- Central office staff should be utilized as instructional resources and to provide technical assistance where appropriate.

- In addition to the budget handbook, the district's curriculum guides should be utilized as references when making decisions about instructional materials and supplies.

- The budget should be closely aligned to and support campus and district-level goals, objectives and priorities as identified through the campus and district planning processes.

**Appendix 1. School-Based Budgeting Guidelines Sample (Continued)**

## Budget Decentralization

Budget decentralization places the authority to make decisions related to the allocation of resources at the school level. This process gives each school the opportunity to identify and target the varied resources available to it and make decisions about how best to utilize these resources. Decisions about use of resources involve more than financial resources. These decisions also include considerations relating to the use of people, time, information and technology. Simply stated, a decentralized system of budgeting allows schools to select the resources they need to meet the needs of their specific student population.

## Parameters for Decentralization

School level personnel must have a clear understanding of the limitations, constraints and opportunities which govern decision-making under decentralization. Therefore, the following parameters have been established to provide schools with a framework within which to develop their campus level improvement plans and budgets.

1. School must comply with all board policies and procedures, as well as all federal, state and local laws pertaining to public school operation, unless a waiver has been obtained.

2. Schools must comply with all accreditation standards and state regulations related to public school education, unless a waiver has been obtained.

3. School personnel should make use of listings of recommended resource materials in each of the decentralized program areas (contained in a separate document) and district curriculum guides in making budget decisions.

4. Some program areas do not have decentralized monies. Program areas which do not as yet have decentralized monies will operate, for 2XXX-XX, as in previous years.

5. Basic per student allocations eligible for carryover are provided to schools based on the best available student projections.

**Appendix 1. School-Based Budgeting Guidelines Sample (Continued)**

6. Non-carryover allocations include monies from central office English/Language Arts and Reading, Health, Mathematics, and Social Studies which were decentralized to schools during the 1992-93 budget year. Also included in this allocation are monies being decentralized from central office. These include: Art, Choral and General Music, Early Childhood Education, Foreign Languages, Instrumental Music, Physical Education and Science budgets. *(More detailed information about further decentralization of program area budgets is included under Areas of Decentralized Budgeting.)*

7. Although schools receive funds based on a per student allocation, schools have some flexibility in the manner in which these funds are spent. These per student allocations (including monies from central program area budgets) provide resources to address the school's needs for materials, equipment and supplies. Schools are expected to provide the appropriate educational program for each student within their allocated resources. Schools remain accountable for the manner in which resources are used.

8. Supplemental per student allocations for students enrolled in special programs (e.g. Bilingual/ESL) are based upon average daily attendance data and are to be spent, in addition to the basic per student allocation, for resources to meet the special needs of these students.

9. The Campus *Educational Improvement Plan* provides the basis for the school's budget and financial expenditure priorities.

## Appendix 1. School-Based Budgeting Guidelines Sample (Continued)

The District Budget Process

The budget process is designed to allow schools and central office departments to plan future operations in a manner which best serves the needs of students. The budget is a financial translation of the district's goals and objectives and is based upon campus and district-level planning processes.

The budget process includes five basic steps:

1. The establishment of an overall district revenue projection.

2. The establishment of school allocations based on projected enrollments and resources.

3. The development of budgets or expenditure plans for each school and central office department.

4. The compilation of individual budgets or expenditure plans into a comprehensive budget in accordance with anticipated revenues.

5. Review and approval of the district budget by the board of education.

Budgeting for Capital Equipment

Capital equipment requests will continue to be reviewed by appropriate supervisory personnel when not a part of a local (school-based) allocation. Approval of these requests will be on an item-by-item basis; therefore, an accurate estimate of cost is important. Overestimating the cost of capital items DOES NOT provide the flexibility of receiving more equipment, and MAY reduce the total number of items approved. On the other hand, underestimating may keep a requested item from being purchased even if approved. Be sure to include DELIVERY, ASSEMBLY, INSTALLATION, WIRING AND OTHER RELATED COSTS in estimates for capital equipment when appropriate.

## Appendix 1. School-Based Budgeting Guidelines Sample (Continued)

Coding

All monies must be allocated and spent according to STATE DEFINED codes, including program intent codes.

Submission of Budget Document

All budget materials must be returned as a SINGLE UNIT (not in pieces) to the budget office. Once initial review and input of the budget documents is completed, the budget manager will receive the appropriate sections for review.

Budget documents are due in the budget office no later than _____ for initial review and input.

School and central office budgets will be reviewed and compiled into a comprehensive district budget and presented to the Board of Education for review in July and August annually. Since allocations are based on projected revenues, some adjustments may be required if these revenues change during the budget process. Budget allocations and school budgets will be adjusted based on the number and types of students enrolled.

District and school budgets are open records information. Requests to view or to have a copy of this information should receive an appropriate response in a timely manner.

# Appendix 2 - Sample Budget Categories by District and Campus

**Appendix 2. District Budget Categories**

| | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Beginning Fund Balance** | | | | | $0 |
| **Estimated Revenues:** | | | | | |
| Local Ad Valorem Taxes | | | | | $0 |
| State Sources | | | | | $0 |
| Federal Sources | | | | | $0 |
| Other Sources | | | | | $0 |
| **Total Estimated Revenues** | | $0 | $0 | $0 | $0 |
| **Estimated Expenditures/Expenses:** | | | | | |
| Payroll Costs | 6100 | | | | $0 |
| Professional and Contracted Services | 6200 | | | | $0 |
| Supplies and Materials | 6300 | | | | $0 |
| Other Operating Costs | 6400 | | | | $0 |
| Debt Service | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | 6600 | | | | $0 |
| **Total Estimated Expenditures/Expenses** | | $0 | $0 | $0 | $0 |
| **Other Resources** | 7910 | | | | $0 |
| **Other Uses** | 8910 | | | | $0 |
| **Non-Operating Revenues (1)** | 7950-80 | | | | $0 |
| **Non-Operating Expenses (1)** | 8950-80 | | | | $0 |
| **Excess/(Deficiency) of Revenues over Expenditures** | | $0 | $0 | $0 | $0 |
| **Ending Fund Balance** | | $0 | $0 | $0 | $0 |

(1) For use with Proprietary Fund Types only (Food Service accounted for in Enterprise Fund).

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Instruction:** | 11 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Instruction** | | | $0 | $0 | $0 | $0 |
| **Instructional Resources and Media Services:** | 12 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Instructional Resources and Media Services** | | | $0 | $0 | $0 | $0 |
| **Curriculum Development and Instructional Staff Development:** | 13 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Curriculum and Instruction Staff Development** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Instructional Leadership:** | 21 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Instructional Leadership** | | | $0 | $0 | $0 | $0 |
| **School Leadership:** | 23 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total School Leadership** | | | $0 | $0 | $0 | $0 |
| **Guidance, Counseling and Evaluation Services:** | 31 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Guidance, Counseling and Evaluation Services** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Social Work Services:** | 32 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Social Work Services** | | | $0 | $0 | $0 | $0 |
| **Health Services:** | 33 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Health Services** | | | $0 | $0 | $0 | $0 |
| **Student Transportation:** | 34 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Student Transportation** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Food Services:** | 35 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Food Services** | | | $0 | $0 | $0 | $0 |
| **Cocurricular/ Extracurricular Activities:** | 36 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Cocurricular/Extracurricular Activities** | | | $0 | $0 | $0 | $0 |
| **General Administration:** | 41 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total General Administration** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Plant Maintenance and Operations:** | 51 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Plant Maintenance and Operations** | | | $0 | $0 | $0 | $0 |
| **Security and Monitoring Services:** | 52 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Security and Monitoring Services** | | | $0 | $0 | $0 | $0 |
| **Data Processing Services:** | 53 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Data Processing Services** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Community Services:** | 61 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Community Services** | | | $0 | $0 | $0 | $0 |
| **Debt Service:** | 71 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Debt Service** | | | $0 | $0 | $0 | $0 |
| **Facilities Acquisition and Construction:** | 81 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Facilities Acquisition and Construction** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Contracted Instructional Services Between Public Schools:** | 91 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Contracted Instructional Services Between Public Schools** | | | $0 | $0 | $0 | $0 |
| **Incremental Costs Associated With Chapter 41:** | 92 | | | | | |
| Payroll Costs | | 6100 | | | | $0 |
| Professional and Contracted Services | | 6200 | | | | $0 |
| Supplies and Materials | | 6300 | | | | $0 |
| Other Operating Costs | | 6400 | | | | $0 |
| Debt Service | | 6500 | | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | | $0 |
| **Total Incremental Costs Associated With Chapter** | | | $0 | $0 | $0 | $0 |
| **36** | | | | | | |
| **3641 Total Incremental Costs Associated With Chapter 36** | | | $0 | $0 | $0 | $0 |

**Appendix 2. District Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Payments to Fiscal Agent/Member Districts of Shared Services Arrangements:** | 93 | | | | | |
| Other Operating Costs | | 6400 | | | | $0 |
| **Total Payments to Fiscal Agent/Member Districts of Shared Services Arrangements** | | | $0 | $0 | $0 | $0 |
| **Payments to Juvenile Justice Alternative Education Programs:** | 95 | | | | | |
| Professional and Contracted Services | | 6200 | | | | $0 |
| **Total Payments to Juvenile Justice Alternative Education Programs** | | | $0 | $0 | $0 | $0 |

## Appendix 2. District Budget Categories (continued)

| | Function Code | Object Code | General Fund | Debt Service Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|---|
| **Summary:** | | | | | | |
| Payroll Costs | | 6100 | $0 | $0 | $0 | $0 |
| Professional and Contracted Services | | 6200 | $0 | $0 | $0 | $0 |
| Supplies and Materials | | 6300 | $0 | $0 | $0 | $0 |
| Other Operating Costs | | 6400 | $0 | $0 | $0 | $0 |
| Debt Service | | 6500 | $0 | $0 | $0 | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | $0 | $0 | $0 | $0 |
| **Total Estimated Expenditures** | | | $0 | $0 | $0 | $0 |

## Appendix 2. Campus Budget Categories

### Estimated Expenditures by Function (Campus)

| | Function Code | Object Code | General Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Instruction:** | 11 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Instruction** | | | $0 | $0 | $0 |
| **Instructional Resources and Media Services:** | 12 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Instructional Resources and Media Services** | | | $0 | $0 | $0 |
| **Curricular & Instructional Staff Development:** | 13 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Curricular and Instructional Staff Development** | | | $0 | $0 | $0 |

**Appendix 2. Campus Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Instructional Leadership:** | 21 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Instructional Leadership** | | | $0 | $0 | $0 |
| **School Leadership:** | 23 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total School Leadership** | | | $0 | $0 | $0 |
| **Guidance and Counseling Services:** | 31 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Guidance and Counseling Services** | | | $0 | $0 | $0 |

**Appendix 2. Campus Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Social Work Services:** | 32 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Social Work Services** | | | $0 | $0 | $0 |
| **Health Services:** | 33 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Health Services** | | | $0 | $0 | $0 |
| **Food Services:** | 35 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Food Service** | | | $0 | $0 | $0 |

**Appendix 2. Campus Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Cocurricular/Extracurricular Activities:** | 36 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Cocurricular/Extracurricular Activities** | | | $0 | $0 | $0 |
| **Plant Maintenance and Operations:** | 51 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Plant Maintenance and Operations** | | | $0 | $0 | $0 |
| **Security and Monitoring Services:** | 52 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Security and Monitoring Services** | | | $0 | $0 | $0 |

**Appendix 2. Campus Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Data Processing Services:** | 53 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Data Processing Services** | | | $0 | $0 | $0 |
| **Community Services:** | 61 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Community Services** | | | $0 | $0 | $0 |
| **Facilities Acquisition and Construction:** | 81 | | | | |
| Payroll Costs | | 6100 | | | $0 |
| Professional and Contracted Services | | 6200 | | | $0 |
| Supplies and Materials | | 6300 | | | $0 |
| Other Operating Costs | | 6400 | | | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | | | $0 |
| **Total Facilities Acquisition and Construction** | | | $0 | $0 | $0 |

**Appendix 2. Campus Budget Categories (continued)**

| | Function Code | Object Code | General Fund | Food Service Fund | Total All Funds |
|---|---|---|---|---|---|
| **Summary:** | | | | | |
| Payroll Costs | | 6100 | $0 | $0 | $0 |
| Professional and Contracted Services | | 6200 | $0 | $0 | $0 |
| Supplies and Materials | | 6300 | $0 | $0 | $0 |
| Other Operating Costs | | 6400 | $0 | $0 | $0 |
| Capital Outlay - Land, Buildings and Equipment | | 6600 | $0 | $0 | $0 |
| **Total Estimated Expenditures** | | | $0 | $0 | $0 |

# Appendix 3 - Projection Methodology[5]

## Forecasting By Analogy

The analogy method of projecting student populations assumes that a school district's student population will have growth characteristics similar to another school district whose past growth characteristics are known. This method is best used in suburban settings where there are discernible rings of growth from the center of the population density (growth usually follows arterial highways and routes of public transportation). The school district makes the assumption (based upon an analysis of community characteristics), that their own school district will grow in the same manner as a neighboring school district has already grown.

The past rate and geographical direction of growth of the similar school district can be determined and applied to the current school population of the subject school district. That rate of growth (the average of the percent of growth for each year for which similarity can be expected) is applied to the current student population of the subject school (and to each year successively) to yield future student populations. From this application of rate and direction of growth, a set of projections of student population is generated.

### *Advantages*

Forecasting by analogy is an easy-to-use method of projecting student population because the *data is readily available* from the neighboring school district. With a *minimum of mathematical manipulation,* the mean rate of growth per annum can be determined and applied to a known student population. This method is very easy to use.

### *Disadvantages*

The *accuracy* of the results may be less than desired. If the assumption that the subject school district, in fact, will grow at a rate similar to a neighboring school district proves

[5]The information in this appendix is taken from Glenn I. Earthman, *Planning Educational Facilities for the Next Century, (Ruston, VA: Association of School Business Officials, 1992), Chapter 4 "School Enrollment Projections"*

incorrect, the projection figures are incorrect. Such an assumption should be based on a thorough analysis of the two school districts and the unequivocal conclusion that comparable growth will occur. *Frequent* analysis is necessary to detect differences in growth patterns. So long as the assumption remains viable, the results may be valuable. *When the slightest change in growth patterns occurs, the accuracy of the projection is suspect.* This method of projection should probably be used only *as a check or back-up* for another type of student enrollment projection method.

## Forecasting Distribution of Student Population from Total Population

This method of projection is based upon the assumption that an *observable ratio between total population and school enrollments* has existed in the past and *will continue in the same ratio* in future populations. From published U.S. census data, the percentage of each age group of the total population is available. This percentage is applied to previously prepared projections of total school district populations. (Various government units, such as city or county planning commissions, prepare total population projections that do not contain age grouping breakdowns for geo-political areas. They make these projections by applying a survival ratio to population counts derived from the U.S. census.) The school district applies the observable ratios to the total population figure to determine the expected size of each age group for the future.

### *Advantages*

This method is *very easy to apply*, and the *data is readily available* from a governmental agency. The mathematical manipulation of the data is not complicated, and the results are straightforward. There are, however, several disadvantages to this method.

### *Disadvantages*

The first disadvantage is that the *U.S. census uses age groupings which are not consistent with the enrollment age groupings of the school district.* The census is broken down according to full years, i.e., the age four grouping includes both the 4-year-old and the child who is 4 years, 11 months. School districts often use one-half year designations such as 5 years for kindergarten and 17 1/2 years for high school. The extrapolation that must be done on the census figures to compensate for this disparity increases the possibility of inaccurate projections (as does all extrapolation).

School organization levels such as elementary, middle and high school are not consistent with the age groupings of the U. S. census. To determine the expected distribution of students at the various school levels, additional extrapolation is required, further increasing the possibility of error.

Another difficulty is that *census tract areas do not correspond to school attendance areas.* Usually a percentage based on demographics is developed to divide the projected student population according to school attendance areas. This percentage is calculated by dividing individual school building enrollments by the current total school district student population. This percentage is applied to the projected student population to determine future individual building enrollments in the district.

Some school district boundaries do not coincide with the county or city boundaries. If more than one school district falls within a local census area, a percentage of the total population each school district contributes to the whole must be calculated and be applied to school population projections. *The likelihood of error increases with increased manipulation of the data.*

The *length of time* that the total population projection by a planning commission or other governmental agency covers *usually does not coincide* with the needs of the school district. Most planning commissions project for a decade rather than a shorter term. Most school systems rely upon short term projections (even though they may develop ten-year projections). Local planning commission projections often are tied directly to the beginning-of-decade numbers generated by the census data. These data may not be available for three to seven years into the decade. Obviously, this delay causes problems.

Exhibit 14 presents a set of student enrollment projections developed by using total population projections obtained from a county planning commission. (These projections were developed to confirm the *direction of growth* projected by another method.)

**Exhibit 14. School Enrollment Projections from Total Population**

| | | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2005 | 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *5-9 year population* | *Total* | 1,416 | 1,446 | 1,460 | 1,429 | 1,417 | 1,427 | 1,442 | 1,465 | 1,504 | 1,610 | 1,683 |
| | *School* | 1,395 | 1,321 | 1,301 | 1,264 | 1,292 | 1,301 | 1,315 | 1,336 | 1,372 | 1,465 | 1,535 |
| *10-14 year Population 6* | *Total* | 1,468 | 1,439 | 1,413 | 1,437 | 1,450 | 1,465 | 1,480 | 1,488 | 1,487 | 1,484 | 1,591 |
| | *School* | 1,499 | 1,446 | 1,434 | 1,488 | 1,473 | 1,488 | 1,503 | 1,511 | 1,510 | 1,508 | 1,616 |
| *15-19 year Population* | *Total* | 1,574 | 1,599 | 1,617 | 1,576 | 1,537 | 1,494 | 1,452 | 1,416 | 1,423 | 1,458 | 1,468 |
| | *School* | 721 | 679 | 672 | 731 | 676 | 657 | 639 | 623 | 626 | 642 | 646 |
| *Special Education* | | 87 | 95 | 107* | 73 | 83 | 83 | 83 | 83 | 84 | 87 | 91 |
| ***Total*** | | **3,682** | **3,541** | **3,514** | **3,556** | **3,524** | **3,529** | **3,540** | **3,553** | **3,592** | **3,705** | **3,888** |

* *Includes Alternative Education Classes*

## Forecasting with Cohort Survival Ratios

The cohort survival ratio method is also known as age, class, grade retention or grade progression ratio. (Other terms used for this method are: percentage of survival, percentage of retention, grade persistence, survival-ratio method, and retention ratio method.) Regardless of the terminology, the method assumes that *the historical survival rate of the members of a designated cohort* (or group such as a kindergarten class which is tracked through graduation) *can be used as the basis for predicting the size of similar cohorts* (other kindergarten classes) *as they progress through the system.*

As a kindergarten class moves through the school system and emerges from the twelfth grade, the composition and number of students in the class change yearly at an observable rate which is applied to other groups making the same progression from first through twelfth grades. Application of these observed rates of change to groups expected to enroll in kindergarten will project enrollment figures for grades one through twelve through the

[6]The information in the Total and School rows for this population group appear to be transposed. The figures are reproduced here as they appear in the original.

next twelve years. Application of the observed rates of change to a cohort already enrolled, likewise, projects enrollment figures for the years remaining for that cohort in the system.

The first step is to build a data base for cohort survival ratios. The historical ratio between a cohort in a grade and that same cohort in succeeding grades is developed for all grades, kindergarten through twelve, for several years. The more historical cohorts (followed from kindergarten through twelfth grade) included in the data base, the better the projection will be.

*A mean survival ratio for each historical cohort tracked is calculated for each grade,* kindergarten through eleven, by dividing the number of students in the cohort in one grade (for example, the number of students in the *1991 Grade 2)* into the number of students in the cohort in the next grade *a year later* (for example, the number of students in the *1992 Grade 3)* for use as cohorts in the data base. An arithmetical average (of all cohorts included in the data base) is calculated for *each grade level* to obtain a *mean survival ratio* which is to be used to project the survival rates of future cohorts *in that grade.*

For example, if there were one hundred students in the kindergarten class one year and only ninety-nine students in the first grade a year later, only 99 percent of the students in that cohort survived. If 99 percent of every kindergarten class cohort survived to reach first grade over a period of five to ten years, the *mean survival ratio* is 99 percent.

The *appropriate mean survival ratios* should then be applied to the *current enrollment number* (or cohort) *for each grade of the school district.* For example, to a fifth grade cohort, mean survival ratios for grades six through twelve are applied to generate the projected enrollment in those grades for that cohort for the next seven years. The mean survival ratio is applied to each current cohort (kindergarten through grade eleven) for every year a projection is to be developed. The result will be student enrollment projections for those cohorts (first through twelfth grades) for their time in the school system.

To project kindergarten enrollments, the historical numerical relationship between the number of live births occurring in one year and the number of kindergarten students enrolled five years later can be used. (Live birth counts are available from the state or county department of vital statistics; historical kindergarten enrollment figures from the school district.) Calculate an *average* of the historical relationship for five to ten years (or as many years as feasible). The more rates used to calculate this *mean survival rate*, the better the projection. This *mean survival rate* of live births to the number of students enrolled in kindergarten five years later is applied to the number of live births for each of the past four years to project kindergarten cohort enrollment for each of the next four years. Applying the *mean survival ratios for all grades* to each *projected* kindergarten cohort projects enrollment for each projected cohort as it progresses through the system.

If historical data are not available for cohorts, *linear ratios* can be developed. This method does not track a single group through the school years, but merely provides a ratio of enrollment of one grade level to the next grade level *in the same year.* (For example: divide the enrollment number of *1991* Grade 2 into the enrollment number of *1991* Grade 3. This ratio simply calculates the relationship of the size of different cohorts in a given year. It does not track a single group through the years. This variation can be used for comparison with other methods of projection. *It is not as accurate as the historical mean survival rate.*

## *Advantages*

The cohort survival method of projecting student enrollments is the most widely used method in the United States. *This method is simple and easy to calculate. Data* used in the mathematical process usually *is readily available,* and the *method is reasonably accurate.* (Only regression analysis rivals this method for accuracy.) The survival ratio method automatically accounts for individual factors influencing enrollments such as movement into and away from the school district, retentions, deaths, annexation, housing changes and employment changes but *assumes that future occurrences will be the same as historical ones.* That accounting coupled with the ease of handling data makes it nearly a universally used method.

Computer software programs that project student enrollments using the cohort survival method are available from both commercial concerns and universities. Most programs available, however, are *generic;* they are developed with parameters that serve as many situations as possible and usually make no modifications for local demographic factors or conditions. Questionable projections may result. Many software packages can be modified to fit local conditions and thereby raise the accuracy level of the projection. Educational consultants may be employed to evaluate and/or develop software for indigenous situations.

## *Disadvantages*

Some disadvantages are inherent in this methodology, however. *A sudden change,* growth or decline, in the community *may be so moderated* (by using a mean) by this method as to *show insufficient influence* upon growth patterns in the future. If a community has grown rapidly in the last two or three years, a ten-year data base may not reflect the real impact of that growth or decline for future enrollments. In such cases, demographers must augment the cohort survival ratios with supporting community growth indices to corroborate the findings or to modify the projections to account for previously unidentified community developments. In addition, *unless the survival ratio is continually updated* with current enrollment histories, *small margins of error are magnified* in succeeding years.

Exhibit 15 contains a set of projections derived through the cohort grade survival ratio method. Exhibit 16 illustrates the results of a linear survival ratio method and Exhibit 17 shows a comparison between grade survival, linear survival, and projections from total population.

## Exhibit 15. Student Enrollment Projections by Grade Cohort Survival

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Kindergarten* | 216 | 242 | 200 | 213 | 241 | 240 | 240 | 239 | 238 | 238 |
| *Grade 1* | 335 | 269 | 275 | 248 | 249 | 291 | 290 | 290 | 289 | 288 |
| *Grade 2* | 272 | 297 | 265 | 270 | 237 | 239 | 280 | 279 | 279 | 279 |
| *Grade 3* | 279 | 285 | 300 | 276 | 259 | 237 | 239 | 280 | 279 | 279 |
| *Grade 4* | 334 | 282 | 281 | 294 | 278 | 261 | 238 | 240 | 282 | 280 |
| *Grade 5* | 234 | 320 | 280 | 295 | 282 | 273 | 257 | 234 | 236 | 277 |
| *Grade 6* | 288 | 259 | 322 | 301 | 316 | 263 | 254 | 239 | 218 | 220 |
| *Grade 7* | 309 | 265 | 251 | 311 | 288 | 307 | 256 | 247 | 232 | 212 |
| *Grade 8* | 364 | 318 | 262 | 256 | 327 | 289 | 308 | 257 | 248 | 233 |
| *Grade 9* | 311 | 337 | 321 | 271 | 275 | 324 | 287 | 306 | 255 | 246 |
| *Grade 10* | 266 | 238 | 257 | 239 | 238 | 222 | 262 | 232 | 247 | 206 |
| *Grade 11* | 280 | 229 | 208 | 229 | 247 | 214 | 200 | 236 | 209 | 223 |
| *Grade 12* | 221 | 254 | 214 | 204 | 246 | 237 | 206 | 192 | 227 | 200 |
| *Special Education* | 80 | 87 | 95 | 92 | 73 | 81 | 82 | 78 | 78 | 76 |
| ***Total*** | **3,789** | **3,682** | **3,541** | **3,514** | **3,556** | **3,478** | **3,399** | **3,348** | **3,317** | **3,257** |

**Exhibit 16. Student Enrollment Projections by Linear Cohort Survival**

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Kindergarten* | 216 | 242 | 200 | 213 | 241 | 240 | 239 | 238 | 238 | 238 |
| *Grade 1* | 335 | 269 | 275 | 248 | 249 | 246 | 243 | 239 | 233 | 230 |
| *Grade 2* | 272 | 297 | 265 | 270 | 237 | 232 | 227 | 222 | 217 | 212 |
| *Grade 3* | 279 | 285 | 300 | 276 | 259 | 250 | 241 | 233 | 225 | 217 |
| *Grade 4* | 334 | 282 | 281 | 294 | 278 | 272 | 269 | 264 | 259 | 254 |
| *Grade 5* | 234 | 320 | 280 | 295 | 282 | 280 | 278 | 276 | 274 | 272 |
| *Grade 6* | 288 | 259 | 322 | 301 | 316 | 313 | 310 | 307 | 304 | 301 |
| *Grade 7* | 309 | 265 | 251 | 311 | 288 | 285 | 282 | 278 | 275 | 272 |
| *Grade 8* | 364 | 318 | 262 | 256 | 327 | 329 | 332 | 335 | 338 | 341 |
| *Grade 9* | 311 | 337 | 321 | 271 | 275 | 273 | 271 | 269 | 267 | 265 |
| *Grade 10* | 266 | 238 | 257 | 239 | 238 | 237 | 237 | 236 | 236 | 235 |
| *Grade 11* | 280 | 229 | 208 | 229 | 247 | 254 | 261 | 268 | 275 | 282 |
| *Grade 12* | 221 | 254 | 214 | 204 | 246 | 255 | 264 | 274 | 284 | 295 |
| *Special Education* | 80 | 87 | 95 | 92 | 73 | 83 | 82 | 83 | 82 | 82 |
| ***Total*** | **3,789** | **3,682** | **3,541** | **3,514** | **3,556** | **3,549** | **3,536** | **3,523** | **3,507** | **3,596** |

**Exhibit 17. Comparison of Student Enrollment Projections**

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| *Grade Level Cohort Survival* | 3,478 | 3,399 | 3,348 | 3,317 | 3,257 |
| *Linear Cohort Survival* | 3,549 | 3,536 | 3,523 | 3,507 | 3,596 |
| *Percent of Total Population* | 3,524 | 3,529 | 3,540 | 3,553 | 3,592 |

## Forecasting with Geo-referenced Data

The premise upon which the geo-referenced method is based is that eventually all land in a given geographical area will be used for some purpose (probably as currently zoned), and that projections can be made from that utilization. Each parcel of land in a school district has some designation for use determined by the zoning board of the local government. This zoning designation allows the owner to use the land for the zoned purpose and to build appropriate structures upon it to accommodate the purpose. They also prohibit the owner from using the land for purposes other than the zoned use. (For example, if a parcel of land has a zoning of R-1, the owner can build a single dwelling upon the site. The owner may not build a car wash or apartment on the site because of the zoning regulation.) Zoning regulations cover all types of land use from farming to commercial and heavy industry to a variety of residential designations. Land in the school district on which any type of housing exists or is planned is of importance to school planners because exact counts of individuals living in existing housing can be determined by a canvass and those expected to occupy planned housing can be made through projection.

Base data for a geo-referenced system comes from the census that a school district conducts. In some instances, however, particularly in large urban school systems, the U. S. census data are used as the base data. When U. S. census data are used, certain extrapolations must be made to overcome problems such as census tracts that do not match either the individual school building attendance area or the school district boundaries.

From canvass or census data, a family composition index can be developed that describes the family that lives in each dwelling. Various factors are indexed to reflect differences in housing. (For instance, the family composition of those living in multiple family units may be different from those in single family units. A single family dwelling unit on a one acre tract might produce a different family composition index from a dwelling situated on one-tenth of an acre or on a five acre tract.) Each living unit type may produce a different family composition index. The number of dwelling units planned is multiplied by the specific family composition index relating to kind of dwelling planned to determine the total number of individuals a new development will produce.

The family composition index also should indicate a break-down within the family unit of the percentage of adults and dependents by age group in a household. (For example, the index should show what percent are pre-school, elementary, middle, and high school age. In a family composition index of 2.97, the breakdown might be: 1.65 adults; .10 pre-school children; .67 elementary school children; .45 middle school children; .10 high school children.) These percentages can then be applied to planned housing units to project the number and age group of students that will be generated by a particular housing development.

The success of a land saturation analysis system of projecting student enrollments is predicated upon close cooperation between local government offices and the school district. Proper and timely notification of changes in land use and zoning are essential if the school district is to obtain the data needed to organize and keep the system up-to-date. Information about proposed zoning changes is available in the official minutes of the zoning board, copies of tentative tract maps, staff memoranda, and even informal communication.

Specific types of data needed for land saturation analysis may vary from one school district to another but may include:

- Current zoning by parcel or study area
- Gross acres of undeveloped land by zoning type
- Net acres of undeveloped land by zoning type
- Projected number of dwelling units by parcel or study area based on zoning density allowances
- Estimated year of development for each tract
- Number and type of new dwelling units projected per year for planning time frame (5, 10, 15 years)
- Number of bedrooms per dwelling unit
- Address and location description

- Developer's name and address
- Price range
- Rental range
- Critical development factors such as sewer line extension, new roads, industry, flood plain work, annexation
- Yearly development estimate by study area
- Survey of proposed sub-divisions under consideration
- Undeveloped acreage within school attendance area
- Breakdown of projected yearly dwelling units within each school attendance area
- Proposed general zoning plans which could change density allowance
- Urban redevelopment master plan
- Survey of requested and issued building permits
- Survey of issued occupancy permits

When a computer is employed, there are many possibilities for using the land saturation analysis system in areas other than student enrollment projections. The school district maintains data on each student which could be attached to the dwelling in which the student lives. Examples of such data might include

- Schools in which the youngsters are enrolled
- Distance from elementary and secondary schools

- Number of the bus and the routes used by students
- Types of programs in which students are enrolled
- Number and kinds of handicapped persons
- Racial and sexual designation
- Grade level

Other data about either pre-school children, school-aged children or even adults could be generated and attached to the particular family group, but all data would be attached to the dwelling in which the family is located. Data about the structure in which the family lives could also be useful for planning purposes. The data about the housing could include:

- Size of the building lots in acres and square feet
- Size and shape of all structures
- Assessed valuation/true market value of the structure
- Additions to the original and date of construction
- Utilities available and used
- Type of zoning

Such an information system ties selected student and census data to demographic and geographic data forming a comprehensive information system which is sometimes referred to as a geo-coded or geo-referenced system. From such a system, many administrative and management decisions could be addressed. (For instance, proposed changes in the bus routes caused by student increases could be analyzed. Ideal locations of new school buildings could be identified; and the closing of a school building, with all of the ramifications, could be analyzed before the fact.) Savings of time and effort could result with the availability of such data, and decisions could be enhanced.

The technology and data bases needed to implement a geo-referenced information system are currently available. Tying the information in the United States Census Dual Independent Map Encoding file (DIME file) to current school district information forms a viable geo-coded base of data.

The United States Census Bureau's DIME file is a geographic base file defining a street network in terms of segments, nodes, enclosed area, and non-street features such as railroad tracks, municipal boundaries, and rivers. By matching the addresses of students and other demographic data with DIME street segments, the coordinates of a student's house can be interpolated into the system enabling the district to identify and isolate each dwelling by location for further analysis. Each of the codes can be tied into the existing school attendance areas for compilation into school building groups on elementary, middle and high school levels.

## *Advantages*

Several advantages are associated with the land saturation analysis method. The *nature of the increase in student enrollments and the direction of growth can be predicted with a high degree of accuracy.* The *timing of the growth* also can be anticipated based upon estimates of completion of housing developments and upon actual completions as verified by occupancy permits.

## *Disadvantages*

The computer hardware and software needed are *costly,* as are the personnel services needed to implement and maintain the system. The availability of good data for decision making by school personnel, however, may compensate for such costs. Such a system *works only where zoning ordinances exist.* Many rural areas do not have official zoning ordinances to govern land development. Obviously, where such does not exist, a geo-referenced system cannot be used. Probably the best application of such a system is an urban renewal or growing suburban area.

Another disadvantage of the geo-referenced system is the *cost to implement and maintain the data* base used for making projections. Unless the system is constantly updated, it becomes obsolete in a matter of days or weeks. A school district must commit sufficient resources to keep it current; otherwise funds used to implement the system are not well spent.

# Appendix 4 - Truth-in-Taxation Guidelines

## Truth-in-Taxation Principles

There are four truth-in-taxation principles which apply to school districts:

- Property owners have the right to know of increases in their properties' appraised values and to be notified of the taxes that could result from the new value.
- A school district must publish its proposed tax rate, rollback tax rate, and other specific information about its proposed taxes.
- A school district must publish a budget and proposed tax rate hearing notice and hold a public hearing to provide an opportunity for citizen input concerning these issues.
- A school district must hold an election to ratify a tax rate adopted above the rollback rate.

## Tax Calendar

The *Property Tax Code* establishes target dates for many truth-in-taxation activities. Although circumstances may force appraisal districts or school districts to alter their timetables, this calendar should provide a framework for activities:

| | |
|---|---|
| **April 1 - May 1** | The chief appraiser sends notices of appraised value. |
| **June 8** | The chief appraiser certifies an estimate of taxable value for school districts with a July 1st fiscal year start date. |
| **June** | A taxing unit publishes its notice of budget and proposed tax rate no later than June 19th, **if the school has a July 1st fiscal year start date.** (1) (2) (3) |
| **June 30th** | A school district adopts its budget by June 30th, **if the school has a July 1st fiscal year start date.** The district must **not** adopt the tax |

| | |
|---|---|
| | rate until after it receives the certified appraisal roll for the district required by Section 26.01, Tax Code. (1) (2) |
| **July 15** | Deadline for commissioner of education to send notice to school districts required to equalize wealth. (TEC 41.004(a)) |
| **July 20** | The ARB approves the appraisal records. |
| **July 27** | The chief appraiser certifies the approved appraisal roll to each taxing unit. |
| **August** | A school district publishes its notice of budget and proposed tax rate no later than August 20th **(this will occur no later than June 19th if the district has a July 1st fiscal year start date)** (3) |
| **Aug. 31st** | A school district adopts its budget by August 31st **(June 30 if the district has a July 1st fiscal year start date)**. |
| **Aug.-Sep.** | After adopting the budget, the unit adopts the tax rate. (1) (2) |
| **September 29** | A school district must adopt its tax rate by this date or 60 days after the school district receives the appraisal roll, whichever date is later. |
| **October** | The assessor prepares and mails tax bills. (1) |

(1) However, a school district that receives an equalized wealth notice from the commissioner of education may not adopt its tax rate until the commissioner certifies that the district has reached its equalized wealth level. (TEC 41.004(c)) If a school district does not adopt a tax rate before the date required, then the tax rate will be the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the school district for the preceding tax year.

(2) However, if a school district has a July 1st fiscal year start date, then a school district must **not** adopt a tax rate until after the district receives the certified appraisal roll for the district required by Section 26.01, Tax Code. Additionally, a school district **must publish a revised notice and hold another public meeting before** the district **may adopt a tax rate** that exceeds the following: (1) The rate proposed in the notice prepared using the estimate; or (2) The district's rollback rate determined under Section 26.08, Tax Code, using the certified appraisal roll.

(3) See format provided by Comptroller in Appendix 5 of Truth in Taxation: A Guide for Setting School District Tax Rates

Additional information is also included in Texas Education Code §44.004. In addition, requirements regarding posting on the school district's Internet website and spending on certain categories is available at Texas Education Code §44.0041.

Note: Districts should consult the comptroller's Truth in Taxation: A Guide for Setting School District Tax Rates publication and/or the School Finance Division of TEA for more information on the tax calendar.

## Rollback Rate Calculation

TEA provides school districts with the calculation worksheet necessary to determine the school maintenance and operations component of the rollback rate calculation on the School Finance website under State Funding Worksheets.

## Taxable Wealth and Tax Rate Limitations

One of the equalization features of the funding formula is a cap on wealth per WADA. Chapter 41 of the *Texas Education Code* establishes equalized wealth levels and gives districts above this level several methods to either reduce wealth or increase WADA in order to achieve the equalized level.

Districts may use four options: (1) consolidating school districts, (2) consolidating school tax bases, (3) deannexing and annexing property between school districts, and (4) contracting to educate children in another school district and paying the state for student attendance credits. These steps affect the truth-in-taxation rollback rate steps.

Chapter 42 of the *Texas Education Code* also provides information regarding limits on school districts' maintenance and operation tax rates. This rate is a nominal rate - it is not tied to the comptroller's taxable value certification.

For additional information, districts should consult the School Finance website.

Note: Districts should consult the comptroller's Truth in Taxation: A Guide for Setting School District Tax Rates publication and/or the School Finance Division of TEA for more information on tax rate limitations and rollback worksheets.

# List of Acronyms

ADA - Average daily attendance

AISD - Austin Independent School District

BRT - Budget Review Team

CEI - Cost of education index

CIC - Campus Improvement Committee

CIP - Capital improvement plan

CPTD - Comptroller's Property Tax Division

DCR - District's Compressed Tax Rate

DIME file - United States Census Dual Independent Map Encoding file

EDA - Existing Debt Allotment program

ESEA - Elementary and Secondary Education Act

ESL - English as a second language

EWL - Equalized wealth level

FICA - Federal Insurance Contributions Act

FSP - Foundation School Program

GAAP - Generally accepted accounting principles

GASB - Governmental Accounting Standards Board

IFA - Instructional Facilities Allotment

LFA - Local fund assignment

NOGA - Notice of grant award

PEIMS - Public Education Information Management System

PPB - Program and Planning, “programming” budgeting

PRC - Peer Review Committee

PTA - Parent-Teacher Association

PTAD - Property Tax Appraisal District

RFP - Request for Proposal

RPG - Resource Planning Group

SBDM - Site-based decision making

SEA - Service efforts and accomplishments

SSA - Shared services arrangement

TASBO - Texas Association of School Business Officials

TEA - Texas Education Agency

WADA - Weighted average daily attendance

ZBB - Zero-base budgeting

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