

MINUTES

SCHOOL-BASED BUDGET WORKING GROUP

November 4, 2003
Room 123-S—Statehouse

Members Present

Senator Bill Bunten, Chair
Senator Derek Schmidt
Senator Chris Steineger
Representative Carol Edward Beggs
Representative Marti Crow
Representative Tim Owens
John R. Atchley
Paul Fink
Mike Jones
Kevin Murphy
Max Prosser

Staff

Carolyn Rampey, Kansas Legislative Research Department
Kathie Sparks, Kansas Legislative Research Department
Art Griggs, Office of the Revisor of Statutes
Theresa Kiernan, Office of the Revisor of Statutes

State Department of Education Staff

Dale Dennis, Deputy Commissioner
Veryl Peter, Director, School Finance

Introductory Material

Senator Bunten welcomed members and informed them of the charge given to the group by the Legislative Coordinating Council (LCC):

The LCC authorized a study to develop a school-based and zero-based budget model for potential use by school districts in Kansas. The study will determine:

- If a change to school-based budgeting would assist citizens to better understand school district finance;

- What benefits and problems would result if school-based budgeting were the policy of the state; and
- What would be the fiscal impact of implementing school-based budgeting on school districts and the state.

Senator Bunten noted that the group was comprised of both legislators and private-sector individuals who, collectively, have a broad range of experiences. Senator Bunten added his own goal to the LCC charge, which is the development of a school-based budget format that will allow board members, patrons, and all other interested parties to better understand school budgets. He stressed that the focus of the working group is on formatting and coding budgets and not on school funding in general. He explained that many school districts already do site-based budgeting, but there is a lack of uniformity among districts as to what is reported.

Mr. Murphy observed that approved school district budgets consist of projected or estimated expenditures, but are not working documents that are continually updated to reflect actual expenditures, the result being that the “actual” budget is less than the approved budget. Senator Bunten responded that, at the state government level, the Legislature conducts a review of agency expenditures during the second half of the current fiscal year, which allows for adjustments to be made. He told the members that he hopes building-based budgeting will make it easier for school officials and patrons to track expenditures throughout the year.

Current School District Budget Forms and Procedures

Dale Dennis and Veryl Peter, State Department of Education, reviewed current procedures and documents related to budget preparation at the school district level. Mr. Dennis explained that the forms filled out by school districts are intended to comply with federal data collection requirements and that the State Department of Education extrapolates information from the budgets and transmits it to federal agencies. The materials they distributed to members are the following:

Attachment 1. U.S.D. Budget Preparation Schedule. Mr. Dennis and Mr. Peter told members that budget preparation typically begins in December, although the process may vary from district to district, depending on local board preferences and district size. The first step often is a request by the superintendent for site-based budgets. The preliminary budget is reviewed by the board during the spring, but actual preparation cannot begin until the Legislature has adjourned in May and actual appropriations for school districts for the upcoming fiscal year, which begins July 1, are known. Public hearings on the proposed budget usually are conducted in August and the final budget is submitted to the State Department of Education and the county clerk in the district on or before August 25.

In response to questions, Mr. Dennis said that site-based budgets deal with a limited number of expenditures—those that are under the control of the building principal—and usually consist of expenditures for travel, supplies, and equipment. When asked about the timing of preparation of the actual budget, Mr. Dennis explained that, until the Legislature adjourns, local boards do not know how much money they actually will have and cannot begin final budget preparation or complete salary negotiations with staff. Another variable is student enrollment, which is not known until the official September 20 enrollment count. Mr. Jones, who is the General Director for Fiscal Services, USD 501 (Topeka), explained that his district uses a demographer to project student enrollment, but, even so, experiences unanticipated enrollment fluctuations which affect the budget after it is adopted in August. Mr. Dennis added that some school districts have a highly transient population, which

makes estimating enrollment especially difficult. He also noted that a third of the districts have fewer than 400 students, which makes a change of even a few students proportionately significant.

Senator Buntun observed that school districts, which begin the fiscal year on July 1, do not operate with approved budgets until several months into the fiscal year. Mr. Dennis responded that, under current law, they have no other alternative. In addition, they cannot begin budget preparation sooner because they do not know what the Legislature has appropriated until the Legislature adjourns in May and the Governor has signed the appropriations bill.

When asked if it is customary for school districts to overestimate their budgets, Mr. Dennis explained that a school district must develop a new budget and republish it if it wishes to go above its original approved budget. If, however, it underspends its approved budget, the budget does not have to be republished. The only danger in adopting a budget that is higher than what is actually planned to be spent is that care must be taken not to actually spend the total amount approved unless it is certain that revenues are sufficient.

Senator Steineger noted that, unlike the state, school districts are not required to have a balance in reserve at the end of the fiscal year. Mr. Dennis told members that any money carried forward in school district general and supplemental general funds is deducted from the next year's appropriation. He said other funds allow balances to be carried forward and that it is not uncommon for there to be balances in the following funds: capital outlay, bond and interest, contingency reserve, and special education.

Attachment 2. USD Form 150. This form is used by school districts to estimate their legal maximum general fund budgets and includes calculations involving various enrollment weightings. The form must be filed with the State Department of Education.

Attachment 3. Form 148. This form includes local effort (non-state sources of revenues) which the district estimates will be available for the upcoming budget year. The form must be filed with the State Department of Education.

Working group members observed that the courts and state and federal levels of government have imposed extensive reporting requirements on school districts.

Attachment 4. USD Form 343. This form contains three years of expenditure information (actual expenditures for the two prior years and estimated figures for the upcoming budget year). The form must be filed with the State Department of Education.

Attachment 5. USD Form 239. This form is used by school districts to compute their local option budgets. The form must be filed with the State Department of Education.

Attachment 6. USD Form 343. This form includes estimates of local effort which the district estimates will be available for local option budgets for the upcoming budget year. The form must be filed with the State Department of Education.

Attachment 7. School District Budget Profile: 2003-2004. The profile is a summary of pertinent information about a school district, including enrollments, expenditures and revenues, mill rates, and other information. In addition, Kansas State Department of Education websites are given that allow access to reports on attendance, violence, number of personnel and salaries, graduation rates, and student scores on state assessments. Depending upon the report, the information is aggregated at the state, school district, or school building level. The profiles were instituted by the State Department of Education and are automatically generated when the school district budget is

transmitted to the State Department. The 2003 Legislature enacted legislation requiring all school districts to prepare a *Profile*.

In a discussion about demographic information that is reported for school districts in the state, Mr. Dennis told members one characteristic is the growing number of children who are from low-income families. Out of a total of 470,000 students, 130,000 (almost 28 percent) qualify for free lunches under the federal school lunch program. In response to a question, Mr. Dennis said it is a federal requirement that 2 percent of applications to participate in the free and reduced lunch program be audited. He also said that for some students and their families, there is a stigma attached to participating in the lunch program and that more students qualify than actually sign up.

Attachment 8. *Budget at a Glance.* The Budget at a Glance is a condensed version of the *Profile* and, by action of the 2003 Legislature, is required to be produced and made available by all school districts.

Attachment 9. Attachment 9 is a blank copy of the budget school districts are required to fill out and submit to the state.

Attachment 10. *Kansas Accounting Handbook.* The *Handbook* includes definitions and explanations to assist school district personnel in filling out school district budget forms.

Attachment 11. *Guidelines for Financial Reporting.* This publication was developed by the State Department to assist school district personnel in understanding relevant statutes that pertain to the various state aid programs.

Attachment 12. This document was developed by the State Department of Education for Senator Bunten. It shows the various codes used by school districts to show expenditures by fund, function, object, and program, as required by state and federal laws, and has been amplified to include coding for expenditures at the building level.

In discussion that followed the presentation by the State Department staff, questions were asked about the status of building-based budgeting among the school districts. Mr. Jones told members that the Topeka school district has moved in the direction of site-based budgeting and is allocating some costs, such as utilities, on a building basis. However, he raised the question with members as to what advantage it is to policy makers to have information at the building level. His position was that personnel in the district must be able to track costs on a building level, but policy makers on the local board of education do not necessarily need the detailed information to make decisions. He said that in his experience, the board seldom asks for detailed, building-based information.

Representative Owens observed that the working group was engaging in the classical debate over the line between policy making and management. He said that policy makers need information to make decisions, but they should not cross the line and begin to micro-manage.

Senator Steineger expressed his opinion that people have become addicted to information but are so deluged with it that they either ignore it or cannot assimilate it.

Attachment 13. *Draft: Building-Based Budget Explanation.* The draft was prepared by the State Department of Education to elaborate on the coding system developed by Senator Bunten for use at the building level.

Senator Bunten led members through an explanation of the building-based format he had developed. Representative Crow asked how special education services provided through school

district cooperatives would be handled and a discussion ensued about various ways special education services are delivered. Mr. Dennis explained that there are three general ways:

- Some school districts, such as USD 501 (Topeka), provide for special education services on their own by hiring and paying for their own teachers.
- Some school districts have joined to form cooperatives, or associations of school districts that pool resources and provide services to members. One district serves as the cooperative's fiscal agent and hires and pays for special education teachers, who provide services to member districts. Participating districts transfer money from their special education funds to the sponsoring district to reimburse it for services provided.
- Some school districts receive special education services from an interlocal, a separate legal entity that hires and pays for special education teachers and is reimbursed for services by districts that purchase the service. Mr. Dennis explained that interlocals originated as an alternative to cooperatives because some districts did not want to assume the responsibility for hiring teachers and providing special education services to participating districts.

Members agreed that coding special education services at the building level would be difficult because there is no standard way services are delivered—some districts transport students to other buildings and to other districts, some districts transport teachers from school to school and from district to district, and public schools are required to provide services to private school special education students. All of these variations make it difficult to code special education costs on a building basis so that the information is comparable from one district to another.

Senator Bunten explained to members that other costs, such as food service and transportation, do not lend themselves to categorization on a building basis and more properly should be classified as central office or district-level expenses.

Questions were raised about how properly to code salaries for teachers paid from federal Title I funds and other federal grants. Mr. Jones estimated that his school district has 28 state funds to track and approximately 80 federal grants, each of which has to be kept separate for federal auditing purposes.

In response to a question about the authority of local boards to require additional information, Mr. Dennis said that a local board could request any amount of budgetary detail that it wishes beyond that which is required at the state and federal levels.

Senator Bunten concluded his review of the proposed format by saying his purpose is to develop a budget that would show, for each building, a total cost-per-student that any interested person could understand.

Mr. Murphy asked how many school districts would be able to implement the proposed building-based budget format without “complications.” Mr. Dennis responded that about 80 percent of the districts participate in cooperatives and, to the extent that cooperatives present a coding problem, there would be an impediment to implementing site-based budgeting. He also said that one-third of the school districts in the state are small (fewer than 400 students) and would have difficulty implementing the new format because of a lack of computer and staff resources.

Members discussed the possibility that only the larger school districts be required to convert to building-based budgeting. When asked what the cost to districts might be, Mr. Jones responded that the Topeka school district has just paid \$2.5 million for a new computer system which allows it to allocate costs at the building level.

Representative Crow asked members if anyone is aware of a demand on the part of local boards or patrons for building-based fiscal information. She said she is not aware of any demand for such information and that she would have a difficult time justifying to her constituents the cost of implementing a new system in the absence of evidence that it is needed.

Senator Steineger raised the possibility that, given the fact that the current school finance funding system is being challenged in court and by legislators who do not like it, it might be better to consider revising school district budget formats after any amendments to the existing act are made.

Senator Bunten indicated that at subsequent meetings, the group will consider how to deal with coding "problems," such as special education, and how to handle district-wide expenditures. In addition, the group will consider the possibility that the budget preparation process can be moved up so that budgets are adopted earlier in the school district fiscal year. He told the group that his plan is to select three districts—a small, medium, and large district—for the purpose of having the staff complete a building-based budget using his proposed coding system. He informed the group that USD 501 (Topeka) has agreed to serve as the large enrollment district and he hopes that the Seaman School District and the Holton School District will serve as the medium and small districts, respectively. He said that he expects the group's work to culminate in the introduction of legislation to implement a statewide building-based budgeting system.

The meeting was adjourned.

Prepared by Carolyn Rampey

Approved by Committee on:

January 14, 2004