




Basic Finance for Superintendents

March 21, 2007


David Martell
Associate Executive Director
Michigan School Business Officials





Technical Difficulties?

- If you are experiencing trouble, please call 1-888-966-8686 or online at
- <http://www.raindance.com/mdc/support/techSupport.jsp>
- If you have other issues, please press *0 on your touch tone phone.








Overview

- **Fiscal Responsibilities of the Superintendent**
- **Improving the Financial Literacy of Board Members**
- **Superintendent's Relationship with the Business Manager**
- **Budgeting & Budgeting Laws**



Overview

- Budget Projections
- Knowing your Local Budget
- Review of State School Aid Funding
- Review of State School Aid Expenditures
- Additional Resources






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POLLING QUESTION

?

Please indicate the size of your district by number of pupils:

- a. < 1,000 FTE
- b. 1,001 – 2,000 FTE
- c. 2,001 – 3,000 FTE
- d. 3,001 – 5,000 FTE
- e. > 5,000 FTE



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FISCAL RESPONSIBILITIES OF THE SUPERINTENDENT



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Fiscal Responsibilities

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- **Everything**
 - Know a little about everything
 - Know and communicate problems
 - What is your Board policy?
 - Review history with business manager and/or ISD staff



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Fiscal Responsibilities

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- **Enough knowledge to speak authoritatively about ...**
 - Local budget
 - State and federal funding




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Fiscal Responsibilities

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- **Know how to ask good/right questions**
 - Ask lots of questions
 - No question is a dumb question
 - Trusted colleagues
 - Benchmarking/Comparing with others
- **Be on the same page as your board**



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IMPROVING THE FINANCIAL LITERACY OF BOARD MEMBERS




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Board Financial Literacy

- Explain the budget process each year before you begin
 - What will we do
 - How we will do it
 - Who is responsible for what



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Board Financial Literacy

- Communicate budget issues as soon as you anticipate a problem



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Board Financial Literacy



- Have an orientation packet for new Board members that explains:
 - State and federal funding
 - Resources available from MASA, MASB, MSBO, and the State
 - Your local budget
 - Copy of the current budget
 - Trend over the past five years
 - Outline of local procedure
 - Identify problems/concerns for the future



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Board Financial Literacy



- Role of the Board
 - Local and/or model policies that apply
 - Define role and how to deal with questions



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SUPERINTENDENT'S RELATIONSHIP WITH THE BUSINESS MANAGER




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Relationship with Business Manager

- Your right arm, right leg, right brain
- Your trusted friend – Invite discussion and criticism
- Treat them how you would like to be treated
- You may luck out, but you generally get what you pay for



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BUDGETING & BUDGETING LAWS



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POLLING QUESTION


?

How involved are you in the budgeting process?



- a. Very involved
- b. Somewhat involved
- c. Minimally involved




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Understanding the Budget  


- **Why are budgets developed?**
 - **State Statutes**
 - Set the districts fiscal year
 - July 1 – June 30
 - Budgets must be adopted prior to the start of the fiscal year (July 1)
 - Must hold a budget hearing
 - Required to use Standard Chart of Accounts (Bulletin 1022)



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Understanding the Budget  

- **Why are budgets developed?**
 - Budgets provide a tool to the school board to allow the district to operate efficiently
 - School board and superintendent can delegate responsibility within the parameters of the budget



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Understanding the Budget  

- **Why are budgets developed?**
 - Provides controls to administrators to effectively monitor and limit the expenditures as approved by the board.
 - **A TOOL YOU CAN USE**



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Understanding the Budget



- How are budgets developed?
 - Varies by district and management style.
 - Historical – start with prior year amounts and show changes
 - Zero Based – budgets start at zero each year and departments need to defend their request



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Understanding the Budget



- How are budgets developed?
 - Varies by district and management style.
 - Site based process
 - Centrally controlled process
 - Some mixture of the two



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Understanding the Budget



Budget Calendar Example

Board of Education Budget Discussion	February
Board, Employee, and Community Input	February-March
Budget Presentation to Board of Education	April
Board of Education Budget Discussion	May
State Revenue Estimating Conference	May
Scheduled adoption of the Budget	June




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Understanding the Budget

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- **Key Budget Assumptions**
 - Student Enrollment
 - State Foundation Allowance
 - Employee Total Compensation
 - Salary scale increases
 - Step/Increment increases
 - Health insurance increases
 - Retirement rate increases



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POLLING QUESTION

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?

Did your district receive a letter this school year from MDE indicating your district had committed a violation of the Uniform Budgeting and Accounting Act, requiring you to respond with details of your budget monitoring policy?



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Uniform Budgeting & Accounting Act

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Reporting/Penalties

- MDE changed their enforcement retroactively
- Beginning with the 2004-05 fiscal year audit reviews
- For 2004-05, MDE reviewed 823 ISDs, LEAs, and PSAs.
- 84 districts (10%) received letters indicating they had violated the act
- MDE was satisfied with district responses to those letters






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Uniform Budgeting & Accounting Act

Reporting/Penalties




- For 2005-06, MDE has reviewed 116 ISDs, LEAs, and PSAs
- Now also reviewing at Revenue Budgets
- 16 districts (14%) have received letters indicating they had violated the act so far

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Uniform Budgeting & Accounting Act




- Law covering governmental entities in the State of Michigan
- MCL 141.434
- Superintendent has final authority for:
 - Budget Preparation
 - Presentation of the budget to the board
 - Control of the budget passed by the board

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Uniform Budgeting & Accounting Act



- MCL 141.434
- Superintendent shall give the board the recommended budget according to an appropriate time schedule, allowing adequate time for board review and adoption before the start of the budget year

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Uniform Budgeting & Accounting Act

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- MCL 141.434
- The board shall consider the recommended budget
- The superintendent shall furnish the board any information the board requires for proper consideration of the budget

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Uniform Budgeting & Accounting Act

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- MCL 141.434
- Before the board adopts the budget, a public hearing must be held

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Uniform Budgeting & Accounting Act

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- MCL 141.435
- The recommended budget shall include at least the following:
 - Revenue and expense data from the most recently completed fiscal year
 - Estimated revenue and expense data from the current fiscal year
 - Estimated revenue and expense data needed for the next fiscal year


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Uniform Budgeting & Accounting Act

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- MCL 141.435
- The recommended budget shall include at least the following:
 - Fund balance as of prior fiscal year end
 - Estimated fund balance for current fiscal year end
 - Approved budget cannot estimate a fund balance deficit at the end of the next fiscal year




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- MCL 141.436
- District shall pass a budget for all funds except:
 - Trust or agency funds
 - Debt service funds
 - Capital project funds
 - Internal service or enterprise funds




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Uniform Budgeting & Accounting Act

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- MCL 141.436
- Budget needs to include the property tax levy (budget hearing)
- Budget needs to be consistent with the uniform chart of accounts
- Does not mandate a “line item” budget



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Uniform Budgeting & Accounting Act



- MCL 141.437
- Changes to the budget require an amendment to the budget
- The Board may permit the Superintendent to execute transfers within limits without the prior approval of the Board
- Board can request periodic reports on the financial condition of the district



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Uniform Budgeting & Accounting Act



- MCL 141.437
- If it appears to the Superintendent or the Board that actual and probable revenues and fund balance are less than estimated revenues and estimated available fund balance...



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Uniform Budgeting & Accounting Act





- MCL 141.437
- ... then the Superintendent shall present to the Board recommendations which, if adopted, would prevent expenditures from exceeding available revenues (and fund balance) in the current year
- The recommendation shall recognize state law and collective bargaining agreements




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Uniform Budgeting & Accounting Act



MCL 141.440

- **Violations**
 - District Audits will “disclose” violations to MDE
 - MDE will then request and review the district’s budget monitoring procedures
 - If those procedures are acceptable – end of issue
 - If those procedures are not acceptable ...
 - The violation of the Act shall be filed by the State Superintendent with the Attorney General




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Uniform Budgeting & Accounting Act

- **MCL 141.440**
- **Violations**
 - The Attorney General shall review the report and initiate appropriate action against the Board, Superintendent and/or Employee
 - For the use and benefit of the District, the Attorney General or Prosecuting Attorney may institute a civil action for the recovery of funds when illegally expended as a result of malfeasance



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Reporting/Penalties




Violation

↓

Audit

↓

State Superintendent

↓

Attorney General

↓

Reviews report and initiates action against school officials

↓

Attorney General or prosecutor may initiate civil action for:

- recovery of funds
- recovery of public property



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Budgeting and the Board



- So where does this leave the Board?
- Board has a fiduciary responsibility as elected officials to follow state law and adopt a "balanced budget".
(Revenues + Fund Balance >= Expenditures)
- Board ensures proper policies are in place
- Board needs to monitor the budget
- Administration implements, manages and tracks the budget, including revenues and expenditures



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BUDGET PROJECTIONS



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POLLING QUESTION





?

Does your district currently prepare a multiyear budget projection?




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BUDGET PROJECTIONS



➤ **What is a budget projection?**

- It's your best guess at what your budget will look like in the years to come.
- It is based on a series of assumptions.
- It should be used for general planning.
- It is a summary document.
- A good one enhances your credibility and a poor one reduces your credibility.




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BUDGET PROJECTIONS

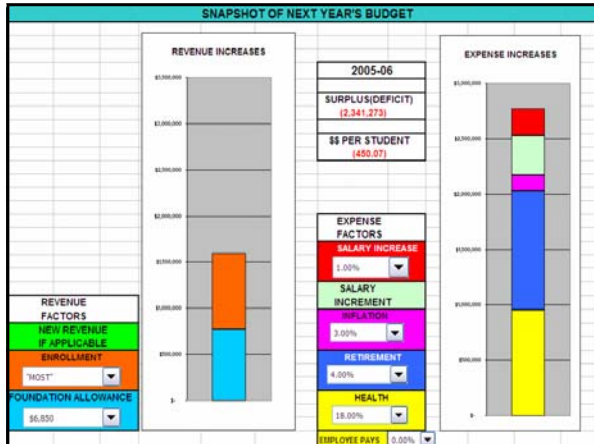
➤ **What is a Budget Projection not?**

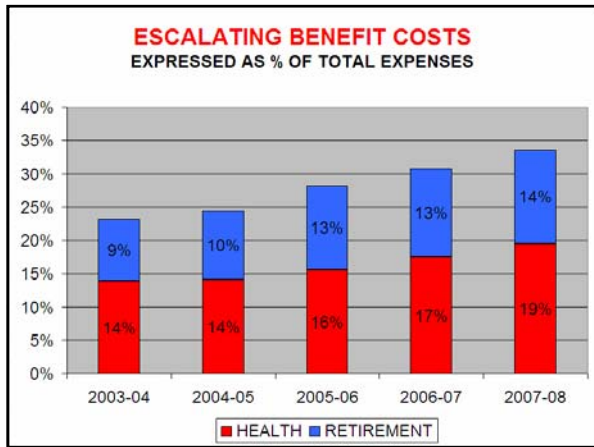
- It is not a static document.
 - As time moves on and facts change, the projection should be updated.
- It is not an accurate crystal ball.
 - The farther into the future you go, the greater your actual experience will vary from your projection.



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My School District				
"BIG PICTURE"				
	2006-07	2007-08	2008-09	2009-10
FUND BALANCE JULY 1	19.3%	12.0%	2.3%	(10.4%)
ANNUAL SURPLUS(DEFICIT)	(\$1,034,000)	(\$1,915,377)	(\$2,785,313)	(\$3,699,653)
FUND BALANCE JUNE 30	12.0%	2.3%	(10.4%)	(28.7%)
PROJECTION ASSUMPTIONS:				
STAFF COMPENSATION	1.00%	1.00%	1.50%	1.50%
AUTOMATIC STEP INCREASES	2.00%	1.50%	1.75%	1.75%
RETIREMENT	2.10%	1.40%	0.90%	0.50%
HEALTH/PERCENT INCREASE	12.00%	14.00%	14.00%	14.00%
PERCENT EMPLOYEES PAY	0.00%	0.00%	0.00%	0.00%
EVERYTHING ELSE	5.00%	6.00%	5.00%	5.00%
TEACHER FTE CALCULATION	0.0	0.0	0.0	0.0
TEACHER STAFF CHANGES	0.0	0.0	0.0	0.0
ENROLLMENT SCENARIO	MOST LIKELY	MOST LIKELY	MOST LIKELY	MOST LIKELY
ENROLLMENT CHANGE	(6)	(10)	(10)	(10)
STATE AID				
FOUNDATION \$\$ INCREASE	\$175	\$175	\$175	\$175
FOUNDATION AMOUNT	\$7,050	\$7,225	\$7,400	\$7,575
FOUNDATION % INCREASE	2.55%	2.48%	2.42%	2.36%
RETURN TO CLICK START		RETURN TO PRESENT MENU		







Where Does Money Come From?

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Statewide Averages

- 70% State Sources
- 17% Local Sources
- 7% Federal Sources
- 6% Incoming Transfers and other transactions

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Average Local District Revenue Sources

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Source	Percentage
State	70%
Local	17%
Federal	7%
Incoming Transfers	6%

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Average State Controlled School District Revenue

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Source	Percentage
State Controlled	86%
Incoming Transfers	6%
Federal	7%
Local	2%

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Where Does Money Come From?

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- **State Funding**
 - Foundation Allowance
 - Categorical Funding
- **Key factors:**
 - Foundation Allowance
 - Enrollment




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State Foundation Grant Revenue

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- **State Foundation Grant** \$7,085/pupil
 - Multiplied By -
- **Number of BLENDED Students** 2,795
- **Total MAXIMUM State Aid and Non-Homestead Tax Revenue:** \$19,803,000




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Blended Enrollment

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- **Blended Enrollment – 2006-07** = 2,795
- **Calculated as a Weighted Average:**
 - Sept. 2006 Enrollment 2,806 x 75% = 2,105
 - Feb. 2006 Enrollment 2,761 x 25% = 690
 - Blended Enrollment 2006-07 2,795
- **Actual Enrollment – Sept. 2006** = 2,806
- **11 Student Difference = Loss of \$78,000**



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Enrollment Projections



- Enrollment is a Critical Component of Revenues
- Projecting Enrollments Equates to Projecting Funds Available for Next Year
- Use Multiple Internal and External Projections to Arrive at “Best Guess”
- Internal – Your Own Staff, Community
- External – Stanfred Associates, Middle Cities, etc.



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POLLING QUESTION



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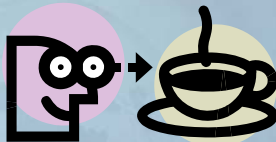
Did your district have a Headlee Rollback of one of your millages last year?

- a. Yes
- b. No
- c. Not sure



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Stretch Break




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“Headlee Rollback”

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- A Reduction in Local Revenue
- Triggered when property is sold and re-valued at a level much higher than the rate of inflation
- Causes the 18 mills levied on Non-Homestead property to be rolled back or reduced




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Headlee Solution

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- Request more mills than are needed to override Headlee
- Districts are requesting authorization to levy 20 or 21 mills
- State law prohibits Districts from actually levying more than 18 mills
- Headlee reduces the authorized millage rate, not the levied rate




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Federal Revenue Sources

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- Title I, etc.
- IDEA – Special Ed
- School Lunch
- USF – E-Rate
- Medicaid / Medicare



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Local Revenue Sources

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- 18 Mills Voted on Commercial, Industrial & 2nd Homes Property (\$3 billion)
- Other Possible Millages: Debt; Sinking Fund; Special Education; Vo-Tech; Enhancement; Recreation
- Investment income
- Childcare
- Community Education
- Rental of school facilities
- Grants

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Incoming Transfers

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- Act 18 Special Ed monies transferred to locals from the ISD
- Tuition payments from other districts
- Sale of property and equipment

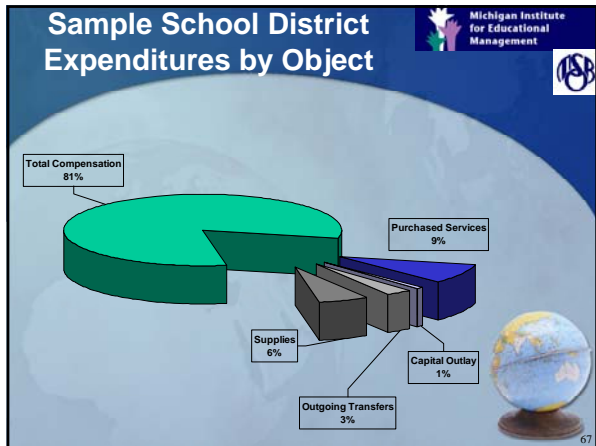
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Statewide Average School District Expenditures by Function

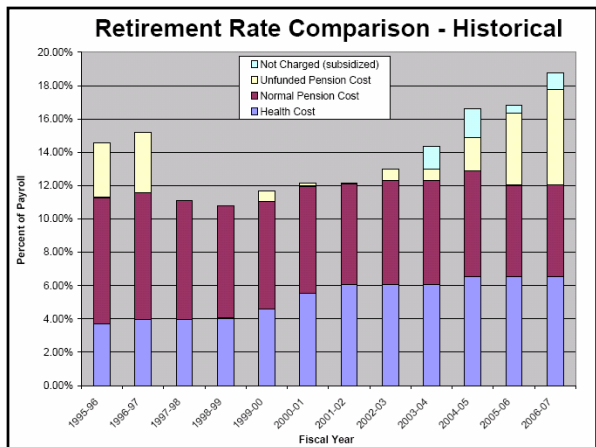
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Function	Percentage
Instruction	58%
Support Services	38%
Outgoing Transfers	3%
Community Services	1%

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The "Other" 19%

- Teaching & Office Supplies (1 – 2%)
- Utilities (3 – 5%)
- Business Insurance
- Capital Outlay
- Repair & Maintenance
- Fuel
- Support for Athletics (1 – 1.5%)



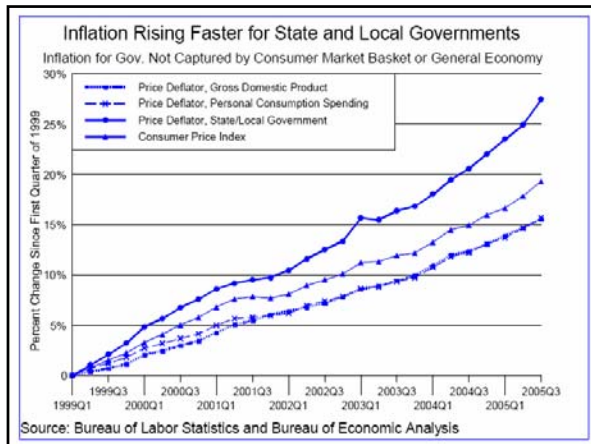
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School Aid Structural Deficit

Spending Pressures Outpace Revenue Growth


- Retirement Contributions
- Employee Health Insurance
- General Pay Raises
- Revenues Growing Slowly

Citizens Research Council of Michigan 39



Fund Balance

- Fund Balance is an Accounting term
- Fund Balance is the net of all district assets and all district liabilities
- While MSBO recommends a 15-20% Fund Balance, circumstances vary from district to district as to the level of Fund Balance necessary for the financial stability of the school district.




POLLING QUESTION

?

In the last three years, has your district's fund balance:

- a. Increased?
- b. Held steady?
- c. Declined?




Fund Balance

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- **Typical Fund Balance:**
 - Cash and Investments
 - Accounts Receivable
 - State (18% of state funding or about \$2.1 billion)
 - Federal
 - Inventories
 - Fuel
 - Custodial, Office and Teaching Supplies
 - Liabilities
 - Summer Salaries and Benefits
 - Accounts Payable




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Fund Balance

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- **Other Considerations:**
 - Cash Flow
 - State aid payments don't start until Oct 20th
 - District has to run from July 1st until Oct 20th on Fund Balance or they will have to borrow
 - Lack of sufficient Fund Balance will force a district to borrow to meet payrolls
 - Interest costs are paid from general operating funds




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Fund Balance

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- **Other Considerations:**
 - Fund Balance Trend
 - Is your Fund Balance growing a little each year
 - Or are you spending Fund Balance each year
 - One time purchases (buses, equipment, etc.)
 - Ongoing costs (salaries, benefits, etc.)
 - » Structural Deficit



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Fund Balance

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Other Considerations:

- **Upcoming Major Expenses**
 - Building up funds over time for a large expense
 - Opening a new building
 - Expected roof replacement
- **Declining Enrollment**
 - Presents many problems for a district
 - Proper Fund Balance levels allows a district to better manage the decline



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Fund Balance

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Other Considerations:

- **Bond Ratings**
 - Reasonable Fund Balance
 - Stable Fund Balance Trend
 - Viewed favorably by rating agencies
 - Benefits taxpayers with lower interest costs when bonds are issued



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Fund Balance

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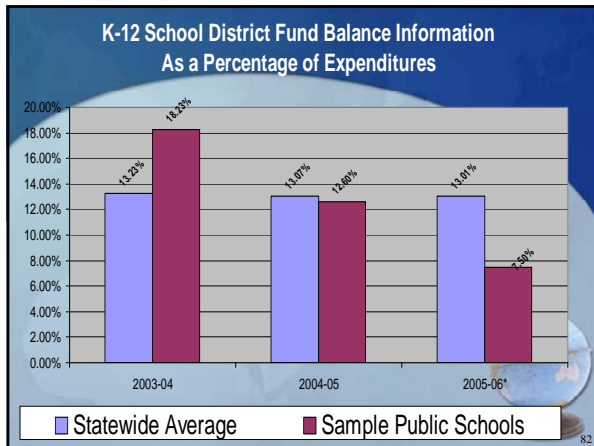
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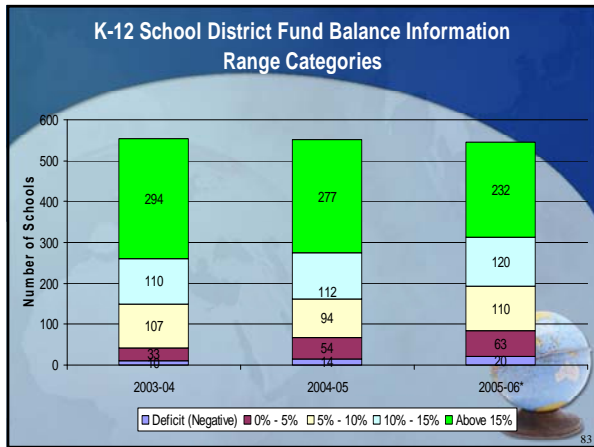
Other Considerations:

- Fund Balance provides **flexibility** when dealing with unanticipated emergencies such as **mid-year reductions in state funding**
- A proper Fund Balance provides a **financial cushion** that allows a district to **avoid drastic changes** in educational programs and/or employee layoffs during the school year



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REVIEW OF STATE SCHOOL AID FUNDING

State School Aid Budget

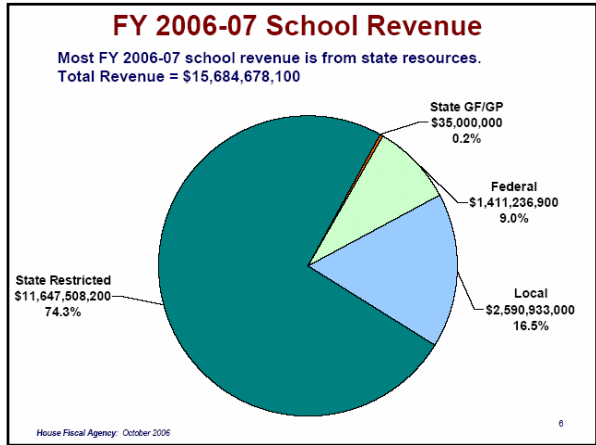
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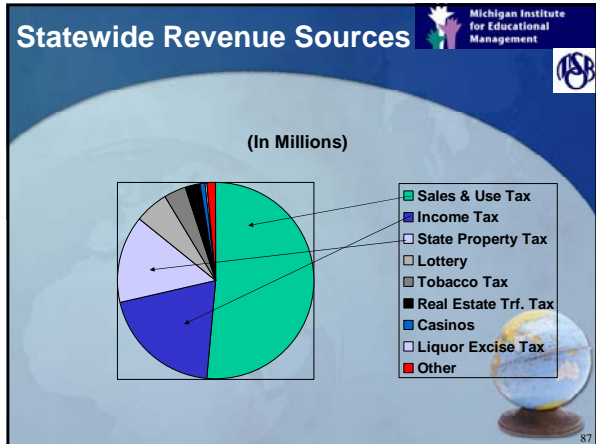
The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

- Michigan Constitution



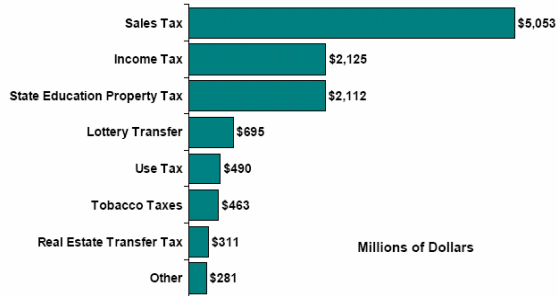
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FY 2006-07 SAF Revenue

State sales tax, state income tax, and state education property tax are the three largest sources of SAF revenue.

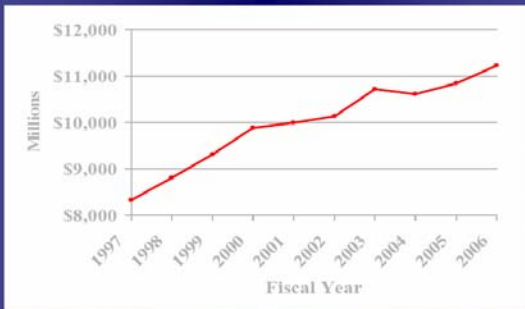


House Fiscal Agency: October 2006

Source: May 2006 Revenue Estimating Conference.

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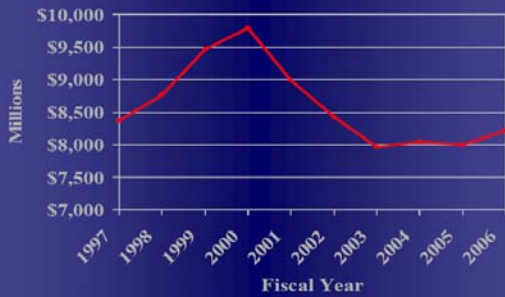
School Aid Revenues



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General Fund Revenues

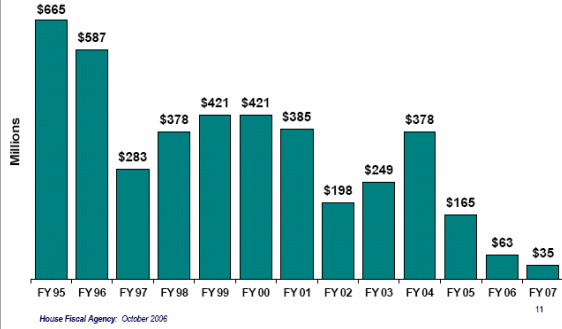


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GF/GP Portion of School Aid Revenue

GF/GP will contribute an estimated \$35 million to the School Aid budget in FY 2006-07.






REVIEW OF STATE SCHOOL AID EXPENDITURES



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School Aid Major Spending Categories

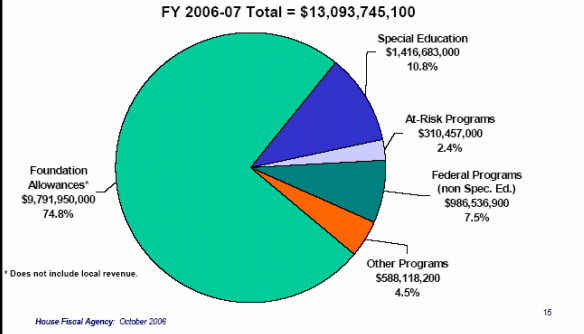
- **Foundation Allowances**
 - Per-pupil payment for general school operations
 - \$9.8 billion in FY 2006-07
 - 74.8% of the School Aid budget
- **Special Education**
 - Reimburses districts for some of their special education costs
 - \$1.4 billion in FY 2006-07
 - 10.8% of the School Aid budget
- **At-Risk Programs**
 - Additional funds to help students at risk of academic failure
 - \$310.5 million in FY 2006-07
 - 2.4% of the School Aid Budget

House Fiscal Agency: October 2006

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School Aid Major Spending Categories

Foundation allowances, used for school operations, absorb \$3 out of every \$4 spent.

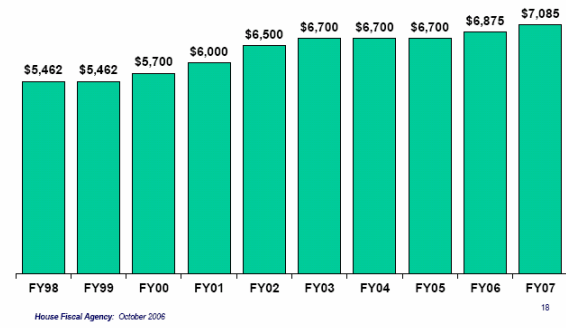


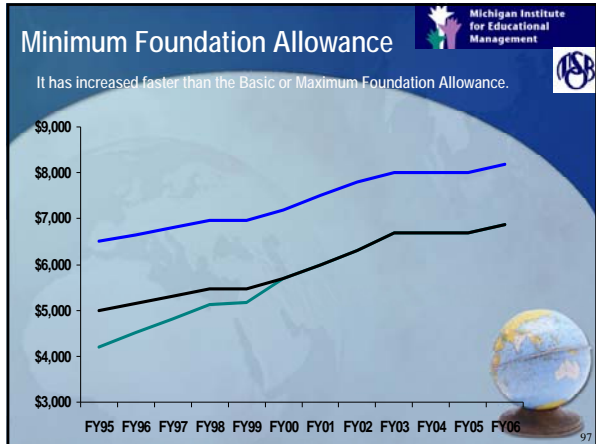
Foundation Allowance

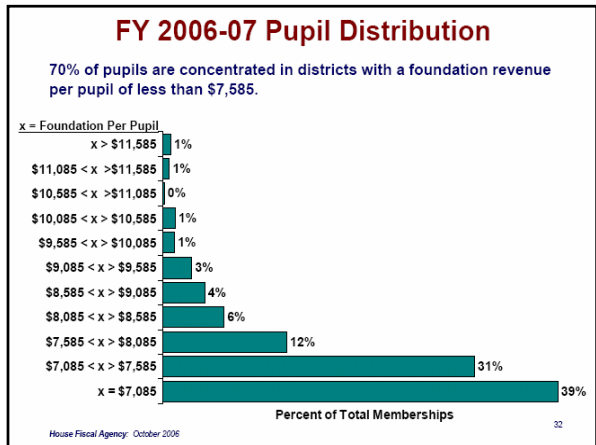
- A per-pupil funding amount that pays the bulk of school operations
- Varies for K-12 districts from a low of \$7,085 per pupil to a high of \$12,340 in FY 2006-07.
- Foundation allowances were created as part of the "Proposal A" school finance reforms which took effect in FY 1994-95.

Basic Foundation Allowance

The Per Pupil Basic Foundation Allowance increased by \$210 in FY 2006-07.

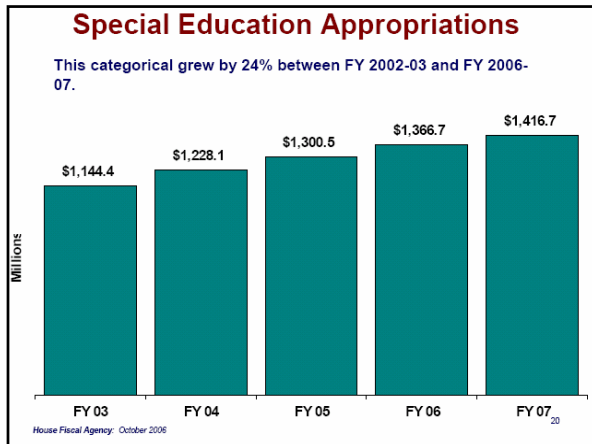


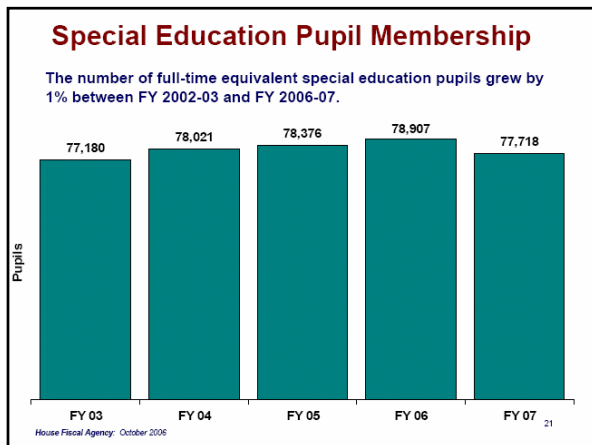




Special Education Funding




- Second largest School Aid appropriation in 2005-06
 - \$955.9 million state dollars
 - \$410.9 million federal dollars
- Reimburses school districts for the costs of educating special education students





Special Education Payment


- A 1997 court ruling, called the *Durant* ruling specified the amount of special education funding the state must pay:
 - The state must pay 28.6138% of special education program costs
 - The state must pay 70.4165% of special education transportation costs

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The At-Risk Program

- Third largest School Aid appropriation
- Additional funds for each pupil who meets the income eligibility for free-meal assistance
- Makes an extra payment equal to 11.5% of a district's foundation allowance for each eligible pupil



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ADDITIONAL RESOURCES



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SCHOOL FINANCE REFERENCE MANUAL



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School Finance Reference Manual
2006-2007

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MSBO WEBSITE



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POLLING QUESTION

?

Have you visited the MSBO website in the last three months?

- a. Yes
- b. No
- c. Not sure



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Contact Information

Michigan Institute
for Educational
Management

MSB

David Martell
Associate Executive Director
Michigan School Business Officials
1001 Centennial Way, Suite 200
Lansing, Michigan 48917

Voice: 517/327-2581
Fax: 517/327-0768
Email: dmartell@msbo.org



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Basic Finance for Superintendents

Questions and Answers



David Martell
Associate Executive Director
Michigan School Business Officials
