

## Chapter VI: Budget Deliberation

While total revenues have increased, the rate of increase is generally less than the rate of increase in expenditures (costs). This lack of alignment between cost increases and revenue increases creates a gap between revenues and expenses.

Historically, the Consumer Price Index (CPI) has provided the per-member increase in the revenue limit, ranging between 0 and 4 percent since 1996. However, while total revenues have increased, the rate of increase is less than the rate of increase in expenditures (costs). Total operating expenses have historically increased more than 4 percent annually. This includes total employee compensation, district insurance, transportation/fuel costs, and utilities.

Budgeting is an ongoing and dynamic process. A well-managed budgeting process is needed regardless of whether a district needs to make reductions. The budget is the district's fiscal plan for meeting its educational goals. These goals or guiding principles are critical, as they are used to determine the priorities and needed staff that must be maintained and funded in the district's budget.

The school board should annually review and establish these goals and principles prior to the development of budget assumptions and projections. The administrative recommendations for budget reductions should focus on the allocation of resources that best meets these goals and principles.

Two of the key budget planning priorities that need to be discussed and agreed to are the issue of maintaining fund balance and the need to develop a balanced budget. If there are areas or programs that shouldn't be considered for reduction, this should be discussed as part of the prioritization of allocating resources and principles.

Budget Deliberations is the point in the budget process where the district balances the estimated budget expenditures to the revenues.

There are two basic scenarios:

- If the district's projected revenue exceeds the proposed expenditures.

The district can adjust the revenues downward, increase expenditures for budget items previously cut, or budget to add to the fund balance.

Caution needs to be taken if the district is planning to lower the levy below the allowable revenue limit. The taxing district should review the long-term property tax implications because the district may lose some future taxing authority by not taxing to the allowable limit.

- If the district's projected expenditures exceed the projected revenues.

The district can adjust the revenues upward, decrease expenditures for budget items, or budget using some of the fund balance.

Adjusting revenues upward (i.e., increasing district revenues) is difficult for districts to obtain as a practical matter. In building the budget, a district projects the revenue limit and arrives at the amount of revenue it can receive from general aid and property taxes.

### **Increasing Revenues**

One area to find additional revenues is through other state and federal revenues. A district could start by reviewing revenue estimates for Title I, Common School fund, categorical aids, and open enrollment tuition.

Other potential areas are from local sources. The district should review extra-curricular program fees, textbook fees, interest income, facility rental fees, and event admission.

### **Decreasing Expenditures**

Further reductions are required if the expenditures still exceed the revenues after reviewing the revenue sources.

Some of the ways school districts reconcile expenditures and revenues are as follows:

- Postpone spending.
- Suspend a major technology initiative or purchase by making current technology last one or two more years.
- Defer some major maintenance or construction projects.
- Improve efficiencies and increase productivity.
- Modify workloads and responsibilities.
- Use equipment and technology to increase output.
- Reduce staff by combining similar job functions.
- Double or triple-up on school bus routes.
- Conserve energy.

- Obtain lower costs for personnel, supplies, materials and services.
- Negotiate salary and wages.
- Discuss and establish other compensation and benefits.
- Request bids or price quotes from competing businesses for supplies, materials, equipment, and services such as school maintenance, legal, auditing, and cleaning.
- Use cooperative purchasing programs.
- Make budget reductions in all areas (across-the-board cuts).
- Reduce expenditures in all programs that are affected by the budget reductions.
- Reduce expenditures in programs and departments with different levels of ability to change their budget.
- Eliminate or reduce services and programs.
- Eliminate or reduce such programs as co-curricular student athletics and student academics, intramurals, gifted and talented, student clubs, and after school programs.
- Eliminate or reduce such services as transportation routes, playground supervision, school library hours, and school guidance.
- Reduce staff positions
- Increase class sizes at the elementary and secondary level.
- Eliminate secondary classes with low enrollment.
- Increase special educational caseloads (individual educational plans should be reviewed).
- Share staff positions with other school districts.
- Reduce support staff.
- Reduce administrative staff.

Timing is important on staffing reductions. State statutes dictate nonrenewal dates for certain professional staff. To reduce the emotional impact of staff reductions, many districts use the strategy of not replacing a position when an employee retires or leaves.

It may be necessary to have the building administrators and department heads rebuild and resubmit their budgets after further budget reduction decisions have been made. Administrators should be mindful of the guiding principles developed by the school board, working with the administration, that serve as a vision for budget planning and development priorities even while they make reductions. The budget's primary purpose is to translate the district's strategic initiatives into programs and services that support student learning.

## **Use of the fund balance**

As a short-term strategy, a district could use the fund balance for some of the proposed expenditures. Fund balance is money carried over from the end of one fiscal year to fund expenditures during the beginning of the next year - before receiving state aid and property tax revenues. This use of fund balance can provide additional money for the budget, but it should be done carefully and the funds need to be added back the next year to balance the following year's budget.

Use of fund balance to balance the budget can result in additional short-term borrowing, increased interest expense, reduced fiscal flexibility for emergency needs, and reduced interest income. The fund balance is best used for one-time expenditures, such as a boiler replacement, major building maintenance project or program start-up costs.

A consistent pattern of planned and/or unplanned use of fund balance can have a significant effect on the District's bond rating. The impact of a reduced rating is an increased cost to finance short and long-term needs.