

1B

Develop Principles and Policies to Guide the Budget Process

SUMMARY

Key Points

- Budget principles are general guidelines that a school district intends to honor through its budget process. Principles are not technical and can be understood and appreciated by all members of the organization and the public. By adopting budget principles, a district's decision makers can create overarching values to help frame and guide budget deliberations. Examples of principles a district might adopt include: "goals for student achievement should drive the budget process" or "base resourcing decisions on the total value created for children." This Best Practice describes other principles that districts might consider as well as more specific elements behind each principle.
- Budget policies clarify a district's intent regarding how it will manage its resources by identifying acceptable and unacceptable courses of financial action, establishing parameters in which the district can operate, and providing a standard against which the district's fiscal performance can be judged. Budget policies are often technical in nature, and thus require some budgeting acumen to develop and implement. A district should ideally have policies related to its general fund reserve, response to financial emergency, long-term forecasting, asset maintenance and replacement, budgeting and management of categorical funds, budgeting for staff compensation, review and sunseting of programs, definition of a "balanced budget," year-end savings, and funding for new programs.

Related Award Program Criteria

- **Criterion 1.B.1: Budget Principles.** A set of principles should be formally adopted by the board and should be submitted as supplementary materials. The principles should address, at a minimum, the concepts outlined in the Best Practice.
- **Criterion 1.B.2: Policies (Mandatory).** The board should formally adopt a set of budget policies that should be submitted as supplementary materials and also be summarized in the budget document. At a minimum, the policies should address the policy topics recommended by this best practice.

Introduction

Developing a budget that closely aligns resources with student achievement outcomes may entail making significant changes in how resources are spent and the corresponding process to allocate those resources. A set of principles and policies, agreed to by the school board and the staff before the budgeting process begins can provide touchstones for what matters most in the budgeting process — creating the most student learning with the money available.

Budgeting principles and policies should be developed collaboratively by the district’s school board and the staff members who develop and recommend the budget. Since both parties have integral roles in developing, adopting, and, ultimately, implementing a budget, both parties must strongly support the principles and policies underlying the budget.

This best practice document describes:

- I. Principles to consider
- II. Policies to consider

I. Principles to Consider

Background. Budget principles are broad ideas about what the budget process should look like. They set forth the ideals that a district’s decision makers will adhere to as they develop the budget, and can help counteract the tendency to induct short-term emotion into decisions that have long-term consequences.¹ Principles are important for creating a shared understanding of the overarching values that underpin budget development. Compared to budget policies, which tend to be more technical, budget principles are more accessible to elected officials and the general public.

Recommendation. Districts should develop and adopt a set of budget principles to help frame and guide budget deliberations. Below are a number of principles that a district’s board and staff should consider discussing in order to determine how these concepts might fit into a district’s own budgeting principles. Districts may also consider other principles that support the goal of optimizing student achievement in addition to those listed below.

Goals for Student Achievement Should Drive the Budget Process

Clear goals for student achievement should guide how resources are allocated.² Tracking progress or making tough budget decisions to prioritize programs and strategies is impossible without specific goals.³

Decisions Should be Driven by Data

Making decisions that will impact the future of children can raise emotions, leading to gut-level decisions that won’t necessarily optimize student achievement for the available money.⁴ Here are examples of more specific elements of this principle that a district should consider:

- **Select programs and service providers based on student outcomes.** Programs and providers that have a demonstrated track record of success in achieving the district’s desired learning outcomes for students should be prioritized for funding.
- **Adhere to evidence based-decision making.** Ideally, a district will adopt a decision-making framework that is centered on evidence of what works. For example, “response to intervention” (RTI⁵) is a well-known model that helps struggling students. RTI emphasizes regular monitoring of student progress, reliance on rigorously tested and proven instructional methods, and use of data to make decisions on educational strategies.

Base Resourcing Decisions on the Total Value Created for Students

The budget process should seek to allocate available dollars optimally, in a way that will create the most benefit for children given the costs — in other words, the best value. Here are examples of more specific elements of this principle that a district should consider:

- **Prioritize strategies and programs with proven cost-effectiveness.** Strategies and programs that have proven to produce larger gains in student

learning relative to their cost should be given priority for funding.⁶

- **Make student-centered decisions.** Budget decisions should be based on what is best for children, not adults. In many cases, there is pressure to develop a budget that puts the interests of adult stakeholders above the interests of students. That priority should be reversed.

Critically Re-Examine Patterns of Spending

GFOA research suggests that school district budget processes are typically “incremental,” where last year’s spending becomes the basis for the next year’s budget, with incremental changes made around the margin. However, past patterns of spending may no longer be affordable or even relevant given changing needs of the community and student body. Hence, the budget process should encourage review of past spending decisions and critically change, where necessary.⁷ Another specific principle to consider includes:

- **Develop and implement a program review and sunset process.** A district should develop and adhere to a process to identify and discontinue programs that are not achieving their objectives or that are simply not as cost effective as available alternatives.

Ensure Equality of Opportunity for Students

School districts must make sure every student is given an equal chance to succeed.⁸ As it relates to the budget process, this means promoting equality in funding among the general student population, while providing extra support for struggling students to also provide them with the opportunity to succeed. For example, for districts using a site-based budgeting model, per-pupil allocations can be weighted based on student need. For districts not using a site-based model, the district should identify groups in need of additional assistance and allocate additional resources as necessary.

Take a Long-Term Perspective

Many districts will not be able to make large changes to their educational strategy and resource allocation patterns within a single year. Further, a consistent application of proven strategies over a multi-year period will deliver better results. Therefore, to the degree possible, districts should develop and adhere to a multi-year funding plan for their strategies, with the goal of fully funding and realigning resources where necessary to fund high priority elements of the strategies.⁹

Be Transparent

Effective budgeting requires valid information about the true costs of serving students and the outcomes produced for students. More specific principles to consider include:

- **Make performance data readily available.** The budget process should be informed by valid and reliable data on fiscal and academic performance.
- **Consider all costs in evaluating the cost of educating students.** A full cost accounting approach should be taken in evaluating the classroom and non-classroom costs of educating students. In both setting and reducing budgets, the full cost of educating students should be considered.¹⁰
- **Use a consolidated budget.** The budgeting process should consider all available funds. The process also should acknowledge constraints on categorical spending, but should consider all available monies to make the most impact with the available dollars.¹¹
- **Be clear on what actions are being funded and their intended outcomes.** Budgets are sometimes solely focused on what inputs are being funded (salaries, benefits, commodities, etc). The budget should make it clear what actions are being funded to help the district to reach its student achievement goals — not just line items and broad expenditure categories.

II. Policies to Consider

Background. Budget policies clarify and crystalize the intent behind how a district will manage its financial resources. While districts should always comply with relevant laws and regulations promulgated by federal and state government, laws and regulations alone do not provide sufficient guidance for the board and staff to work together, optimally, towards the district’s goals. Policies go further by establishing local standards for acceptable and unacceptable courses of financial action, parameters in which the district can operate, and a standard against which the district’s fiscal performance can be judged.

Recommendation. Districts should develop and adopt policies in the areas described below. Districts are encouraged to consider other policies that could support their budgeting and financial planning,¹² but the policies described below are those that should be developed as a foundation.

Politics and Policies

Adopting financial policies is not just a technical exercise — it is also a political matter. A good process for developing and adopting policies can help facilitate a constructive conversation. GFOA's book *Financial Policies* discusses the process for developing and adopting policies in detail.

General Fund Reserve

School districts should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund as a reserve to hedge against risk. The policy should address, at a minimum: the target level of fund balance to maintain; the appropriate uses of fund balance; who can authorize the use of fund balance; and guidance on how fund balance will be replenished to target levels after it has been used.

With respect to the target level of fund balance to maintain, the adequacy of unrestricted fund balance in the general fund should be assessed based upon a district's own specific circumstances. Nevertheless, GFOA recommends for general purpose governments that, at a minimum, the unrestricted fund balance in their general fund is no less than two months of regular general fund operating revenues or regular general fund operating expenditures and operating transfers out (if applicable).

The choice of revenues or expenditures as a basis for the reserve amount may be dictated by what is more predictable in a district's particular circumstances. In determining the right level of unrestricted fund balance for its precise circumstances, a district should analyze the risks that it faces and establish reserve levels commensurate with those risks — including state laws limiting reserve amounts, its revenue and expenditure structure, and also the relative size of its budget.

Definition of a Balanced Budget

While state statutes may require school districts to adopt a balanced budget, the statutes are often vague resulting in a budget that is balanced by the definition of the statute, but may not be, in fact, sustainable over time. For example, selling assets or using reserves may be considered statutorily acceptable means of

balancing the budget, but is not sustainable on an ongoing basis. Therefore, districts should adopt a policy with a more rigorous definition of a balanced budget. GFOA defines a “structurally balanced budget” as a budget where recurring revenues equal or exceed recurring expenditures, and recommends that governments adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget.¹³ The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.

Financial Emergency Policy

School districts should adopt a policy that provides guidelines on how to respond to a financial crisis. The policy should address, at a minimum: the definition of a “financial emergency;” who initiates the policy when an emergency occurs; who manages the emergency; who provides authorization to for necessary expenditure controls; who directs staff to monitor and report on the emergency; who directs staff to analyze the reasons for the emergency and develop a recovery plan for the board; and, finally, who directs initiatives for a root cause analysis of the emergency and developing strategies to prevent a recurrence of the emergency.

Long-Term Forecasting

A policy should direct staff to develop long-term revenue and expenditure forecasts (typically covering five years) as part of the budget process and to consider these forecasts during budget development in order to address the district's future financial position. The policy should also direct the development of long-term enrollment forecasts in order to support financial decision making, including, where practical, trend analysis for students in categories that cost more to educate such as students in poverty, special needs, and English Language Learners.

Asset Maintenance & Replacement

School districts should adopt policies that govern maintenance and replacement for its facilities as well as its shorter-lived assets such as buses, textbooks, and technology. As a basic rule, the policy should direct that all assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. The policy should commit the district to maintaining an inventory of its maintenance/replacement needs and define funding mechanisms for staying current with those needs.

Budgeting and Management of Categorical Funds

School districts receive general tax revenue (e.g., property taxes, sales and use taxes, general state allocations) that can be used largely at the discretion of the district and categorical funds (e.g., Title I, Individuals with Disabilities Education Act (IDEA), Carl Perkins) that are intended for more specific purposes. Often, in a well-meaning effort to remain compliant with governing laws and grant regulations, a substantial barrier between categorical and general funds is created. This divide presents challenges for school districts. Money may be spent on duplicate resources, spending may be fragmented among incoherent initiatives, and district managers may have little understanding of the true breadth of resources available for increasing student learning. A school board policy should direct that all district spending be reflected in the budget and that staff make every possible effort to realize scale and coherence in the use of discretionary and categorical funds.

Budgeting for Staff Compensation

Districts should adopt a policy to require budgeting the cost of positions by the full cost of the compensation for that position (salary plus benefits), rather than just salary costs. This provides a more accurate picture of the true cost of human resources and enables more informed decision making on how to provide services to children.

School districts often use a position's average compensation costs across the entire district to budget that position's cost at individual school sites. The drawback of this approach is that it obscures differences in teacher experience and/or effectiveness between school sites. Hence, districts should adopt a policy that requires steps to recognize these potential inequities either by budgeting according to actual salaries or by supplementing budget allocations based on average salary with statistics that describe the levels of teacher experience and/or effectiveness at each school site (e.g. average years of teacher experience).

Program Review and Sunset, Alternative Service Delivery

Districts should adopt a policy of regularly reviewing their programs/services with the objective of identifying programs/services that are not cost-effective and repurposing the funds. The policy should establish a minimum for how often such a review will be formally conducted. Districts should conduct a review as part of their budget process.

A complement to a program review and sunset policy is a policy on alternative service delivery. A policy on alternative service delivery should state a district's willingness to consider other approaches to providing services, including educating students beyond traditional models using in-house staff. A policy should clarify the criteria that will be used to evaluate an alternative service delivery proposal.

Year-End Savings

It is not uncommon for a school or department to spend less than its entire allocation and have funds remaining at fiscal year-end. A policy should define what happens to those funds. Often, those funds are rescinded and reallocated in the next budget. However, this can encourage a "use it or lose it" mentality among budget managers. Districts should develop policies that encourage a more strategic use of underutilized funds. For example, a policy may provide for a carryover from one year to the next. Carryover continues funding authority for a limited additional time period, usually on a case-by-case basis. This allows central management to grant carry-over authority where there is a clear justification or to rescind spending authority when the funds could be better used elsewhere. It may also be possible to develop policies for joint decision making between central office and school/department managers to identify mutually beneficial uses of year-end savings. For example, a policy might state that budget carryovers and the associated spending will be considered more favorably when they are consistent with a strategic financial plan or result in financial savings to the district.

Funding New Programs

As districts look for new ways to improve student learning, they will need to fund new programs and initiatives. Given that new programs are often at a natural disadvantage when competing with existing programs for funding, districts should develop policies that describe how the district will fund and manage new programs. These policies should encourage practices that support budgeting decisions that best align resource allocation with improving student achievement, such as establishing a preference for "pilot" or "experimental" periods for new programs and estimation of cost and benefits up-front, followed by rigorous evaluation of actual results after a defined period.

Endnotes

- ¹ Chip Heath and Dan Heath. *Decisive: How to Make Better Choices in Life and Work*. (New York: Crown Business, 2013).
- ² See Best Practice in School Budgeting, 2A – Develop Goals, for more information.
- ³ Quoted from Allan R. Odden and Lawrence O. Picus, *School Finance: A Policy Perspective*, 5th ed. (New York: McGraw-Hill, 2014).
- ⁴ Alan M. Blankstein designates “data-based decision making for continuous improvement” as one of his six principles that advance student achievement in highly effective schools. See Alan M. Blankstein, *Failure is Not an Option*, 3rd ed. (Thousand Oaks, CA: Corwin-Sage, 2013).
- ⁵ Response to intervention can be abbreviated “RTI” or “RtI,” both of which are sometimes taken to signify different approaches to response to intervention. GFOA does not endorse one version of response to intervention over the other and has chosen “RTI” for convenience and consistency.
- ⁶ Derived from the concept of “academic return on investment” created by Nate Levenson. See Nate Levenson, *Smarter Budgets, Smarter Schools* (Cambridge, MA: Harvard Education Press, 2012).
- ⁷ Marguerite Roza describes this as “accountability” and it is one of seven design elements she recommends as part of an ideal school financing system. See Marguerite Roza, *Educational Economics: Where Do School Funds Go?* (Washington, D.C.: The Urban Institute Press, 2010).
- ⁸ Equity with respect to school finance is a far-reaching topic. This Best Practice has limited the discussion to equity for children since children are the primary clientele of school districts. It has also limited the discussion to equity of opportunity (as opposed to outcomes, for example) because equity of opportunity is primarily a function of the amount and quality of the inputs into the educational process (e.g., money, teachers), which are issues particularly germane to budget deliberations. For a fuller discussion of equity issues in public education, see Robert Berne and Leanna Stiefel, “Concepts of School Finance Equity: 1970 to Present” in *Equity and Adequacy in Education Finance: Issues and Perspectives*, ed. Helen Ladd, Rosemary Chalk, and Janet Hansen (Washington, D.C.: National Academy Press, 1999).
- ⁹ The importance of a long-term approach to public education strategies for individual school districts has been recognized as far back as 1938. See W. W. Theisen, “Financial Planning,” *Review of Educational Research* 8, no. 2, *Finance and Business Administration* (April 1938): 120-125.
- ¹⁰ Fully loaded costs should include, at a minimum, the cost of all fringe benefits (e.g., health insurance, pension, etc.) in addition to salary when considering the cost of personnel. A classic definition of “full costs” also includes other direct costs (e.g., material and equipment used by a teacher) and indirect costs, such as allocations for overhead services. However, simply using fully loaded personnel costs for budget decisions may represent a significant improvement in decision making. See Nathan Levenson, *Smarter Budgets, Smarter Schools* (Cambridge, MA: Harvard Education Press, 2012).
- ¹¹ For examples and more practical detail, see Levenson, *Smarter Budgets, Smarter Schools*.
- ¹² GFOA has published other resources that describe financial policies that are generally applicable to local governments. See for example: National Advisory Council on State and Local Budgeting
- ¹³ Government Finance Officers Association. “Best Practice: Achieving a Structurally Balanced Budget.” 2012.