

OVERVIEW OF SCHOOL DISTRICT BUDGETING AND THE SCHOOL DISTRICT OF SOMERSET BUDGET

INTRODUCTION

The primary purpose of a school district's budget is to translate the district's educational goals into dollars and cents: what resources are being committed to which programs and services. The process of applying the available budget to those goals is vital to effective school operation. All faculty, staff and administrators, in cooperation with the members of the school board and the community, play important roles in the planning and budget design process – coordinated through the school district strategic plan. We believe that involving faculty, staff, administrators and the school board in the preparation and implementation of the budget is vital as it acknowledges the critical nature of the connection between the district's resources and the children it serves.

BACKGROUND

Fund Accounting:

District operations are budgeted in various "funds." Each fund is an independent accounting entity with its own set of books. Somerset generally operates nine such funds:

- Fund 10 – General Fund. This is the District's general operations fund. It is here that most activity occurs. Except for specific programs noted below, the paying of staff and bills, receipt of tax revenues and state aids, all occur in Fund 10.
- Fund 21 – Special Revenue Fund. Donations and gifts to specific district programs and operations, as well as expenditures for the goods and services purchased from those donations are recorded here. Also recorded here are activities such as fundraising for specific purposes, like c-bucks at the middle school.
- Fund 27 – Special Education Fund. All special education activity is recorded in Fund 27, including payroll of employees providing special education services and all state and federal aids. At the end of the year, a transfer from Fund 10 into this fund is made to record the District's portion of special education expenditures.
- Fund 38 – Non-Referendum Debt Service Fund. This fund records the tax levy for, and payments made on, the District's non-referendum approved debt.
- Fund 39 – Referendum Approved Debt Service Fund. This fund records the tax levy for, and payments made on, the District's referendum approved debt, including refinanced general obligation debt.
- Fund 50 – Food Service Fund. All financial activity related to district food service operations are recorded here, including family payments and state and federal aids.
- Fund 60 – Custodial Fund. Used to account for custodial activity, which is primarily related to pupil organizations pursuant to GASB 84.
- Fund 73 – Employee Benefit Trust Fund. This fund is used to account for resources held in trust for formally established defined benefit pension plans, defined contribution plans, or employee benefit plans. This fund applies to all post-employment benefit plans where the district is providing such benefits by contribution to a legally established irrevocable trust.
- Fund 80 – Community Service Fund. This fund is used to account for activities such as adult education, community recreation, non-special education pre-school, school age care (Spartan Kids Club) services and all other programs which are not elementary and secondary educational programs, but have the primary function of serving the community. A tax levy for this fund may be levied outside of the District's revenue limit.

STATE FUNDING FORMULA

Equalization

Since the mid-1970s, Wisconsin has distributed state general aid to public school districts through a property value based cost sharing equalization formula. The basic premise is that wealthier districts would see a higher percentage of their revenues come from local sources (property taxes), while a greater percentage of revenues for poorer districts would come from state general aids. The relative wealth of a school district is calculated by dividing the total equalized property value of the district by the average student membership for the year to obtain the ‘value per member.’ The state compares the property value per member for all state districts, and those with larger values are considered wealthier than those with lower values, for equalization aid purposes.

1993 Act 16

In 1993, with the passage of Act 16, the State of Wisconsin adopted a new funding system for the state’s public school system. Sometimes called the “three-legged stool” of school finance, the state implemented revenue limits to contain increases in property taxes; made a commitment for the state to fund two-thirds of K-12 education costs state-wide; and established an avenue for schools to contain increasing personnel costs through a process called the qualified economic offer (QEO). This “stool” was set on top of the equalization foundation.

Revenue Limits

Through Act 16, Wisconsin Statute 121.90 was amended to place a limit on the revenues school districts can raise from general state aid and local tax levies. This is called the *revenue limit, or “cap.”* There are three major factors that determine a district’s revenue limit:

- a three year average of student enrollment, calculated on a full-time equivalency (FTE) basis;
 - the prior year’s general state aid and local tax levy; and
 - an annual per pupil increase (to offset inflation) as determined by biennial budget legislation.
- There is a \$325 per member increase in each year of the 2023-2025 WI state biennial budget.

Revenue sources outside the revenue cap include: fees, fines, ticket revenues, interest income, open enrollment tuition for non-district residents to attend district schools, state categorical aids (including per pupil aid and special education aid), federal grant programs, private grants and donations, and reimbursement from Medicaid for services provided to students.

Two-Thirds Funding

The second leg of the stool was for the state, through equalization and other general aids, to fund two-thirds of the state-wide total of K-12 education. The remaining third would be paid through local property taxes. Two-thirds funding is not district specific. In other words, neither Somerset nor any other school district necessarily receives two-thirds of its revenue limit funding from state general aids. That would be contrary to the principle of equalization. In the current year’s budget (2023-2024), state general aids equal 58.4% of capped (revenue limit) revenues with 41.6% coming from property taxes. Revenues outside of the revenue limit have grown in recent years based on state allocation of categorical aids, and affect the two-thirds ratio within the revenue limit.

Act 19

The \$98.6 billion 2023-2025 WI state biennial budget, known as 2023 Wisconsin Act 19, was signed by Governor Evers on July 5, 2023. Act 19 provides a \$325 increase in the per member revenue limit formula in both of the two years of the current biennial budget. The new biennial budget does not provide a Per Pupil Categorical Aid increase in either year of the budget.

KEY TERMS

- Revenue Limits A state defined cap on revenues generated from local property taxes plus state general aids. These two revenue sources equate to over 83% of all general fund revenues for the District in 2023-2024.
- Equalization Aids The primary source of state general aids. Used by the state to level out the economic impact of school funding statewide.
- Categorical Aids State aids for specific programs/services (transportation, libraries, special education, Per Pupil Aid, AODA grants, etc.). These aids are not included in the revenue limit formula, though the Per Pupil Aid is based on revenue limit student FTE counts.
- Property Valuation The dollar value placed on land and buildings for purposes of administering property taxes.
- Assessed Valuation The property valuation determined by the municipal (city, town, village or county) assessor as of January 1 in any given year.
- Assessment Ratio The ratio of assessed value to fair market value in a municipality. This is determined by WI Department of Revenue.
- Equalized Valuation The assessed valuation multiplied by an adjustment factor (based on type of property) computed by the Wisconsin Department of Revenue to cause each type of property to have comparable value regardless of local assessment practices. Since assessment ratios vary by municipality, the calculation “equalizes” property values in calculating the district-wide figure.
- Tax Mil Rate A rate of tax expressed in mils of property value (e.g., \$10.00 per \$1,000 value).
- District Mil Rate
$$\frac{\text{District Property Tax Levy}}{\text{District Equalized Value}} \times 1,000 = \text{School District Mil Rate}$$
- Fund Balance The calculation that shows the difference between the district’s short-term assets (including non-cash components such as taxes receivable) and its short-term liabilities (including non-cash components such as payables). Fund balance is measured on June 30 each year at fiscal year end for financial audit purposes. This one-time “snapshot” includes significant revenue receivables. Fund balance IS NOT equivalent to a checkbook balance.

BUDGET CYCLES

While budgets are for one year at a time, *budget cycles* operate over a two-year period, roughly from December of the year prior to the fiscal year, through the fiscal year, to early part of the following December when the final audit report is filed with the State Department of Public Instruction.

- Seven months prior and into fiscal year: Budget building
- During the year: Budget finalized, applied and monitored
- Six months after: Budget is closed, audited and reports filed

Overview of the Budget-Building Process

Developing the annual budget is a process that really begins in earnest in December, seven months before the fiscal year begins (July 1 each year). During the ensuing seven months, the school board, administrators, faculty and staff work together to identify the goals we want to achieve, the challenges (including changing enrollment and available budget dollars) we face, and the most effective and fiscally responsible ways to meet our goals. The budget building process allows us to decide how we will use our discretionary dollars to meet our goals. The final budget is a statement of our priorities and the fiscal expression of our educational philosophy and accountability.

This process includes the following six phases (some of which overlap):

- Definition Phase: the period during which the school board and administration identify goals, priorities and parameters for the upcoming budget, based on the current strategic plan;
- Allocation Phase: when the dollar amounts for the various budget lines are discussed and initially determined;
- Budget Building Phase: the period during which the building principals and program directors, with staff input, prepare their respective budgets;
- Budget Assembly Phase: the superintendent and business manager compile the various building and department budgets to form a comprehensive district budget that reflects the district's goals and priorities;
- Budget Adjustment Phase: when the budget and levy are considered by the school board and are ultimately proposed at the annual meeting;
- Budget Adoption Phase: district residents, at the annual meeting in September, vote on the tax levy, the school board adopts the budget, and the board then certifies the levy (and adjusts it if necessary) in October.

During the Budget Year

During the fiscal year, the district's administrative team applies the budget and monitors the district's financial performance to manage the budget and adjust to changing circumstances. Periodically throughout the fiscal year, the Board is updated with reports analyzing and comparing actual spending to the approved budget. It is the responsibility of staff and administration to obtain the best resources possible with the dollars available and to do so prudently.

Conclusion of the Cycle

As the school year draws to a close, the business office staff also prepares to close the books on the fiscal year. This process includes the annual financial audit performed by an independent auditor's review of the district's financial records. In addition to the external auditor's report, administration will evaluate the performance of the district and report its findings to the school board, to the community and to the state.

THE BUDGET HEARING and ANNUAL MEETING

The District's 2023-2024 budget hearing and annual meeting was held Monday, September 11, 2023 at 7:00 p.m. in the District Office conference room (639 Sunrise Drive). The next budget hearing and annual meeting (2024-2025) will be held Monday, September 9, 2024 at 7:00 p.m. The official budget summary and the meeting notice will be published in the August 29 and September 5 editions of the *Star-Observer*, respectively.

The meeting is really two meetings: 1) the public hearing on the school district budget and 2) the annual meeting of the electorate.

At the budget hearing, the budget will be presented and district residents will have an opportunity to review the budget. The budget hearing is held in compliance with Wisconsin Statutes section 65.90, which states that “any resident or taxpayer of the governmental unit shall have an opportunity to be heard” at the budget hearing. However, the state Attorney General has determined that the electors at the budget hearing do not have the power to amend the budget as proposed, nor to approve or disapprove the budget.

At the annual meeting, those present and eligible to vote will be able to do so on specific items, including the tax levy for the 2024-2025 fiscal year, board salaries, the authorization to acquire real estate, and authorization to enter into legal proceedings. Wisconsin Statutes section 120.10 delineates the powers of the annual meeting.

FUND BALANCE

Fund balance is a snap-shot picture taken once each year at the close of the fiscal year on June 30 that indicates the current financial health of the District. It is the difference between current assets and current liabilities and is expressed in the equation: **Fund Balance = Assets – Liabilities.**

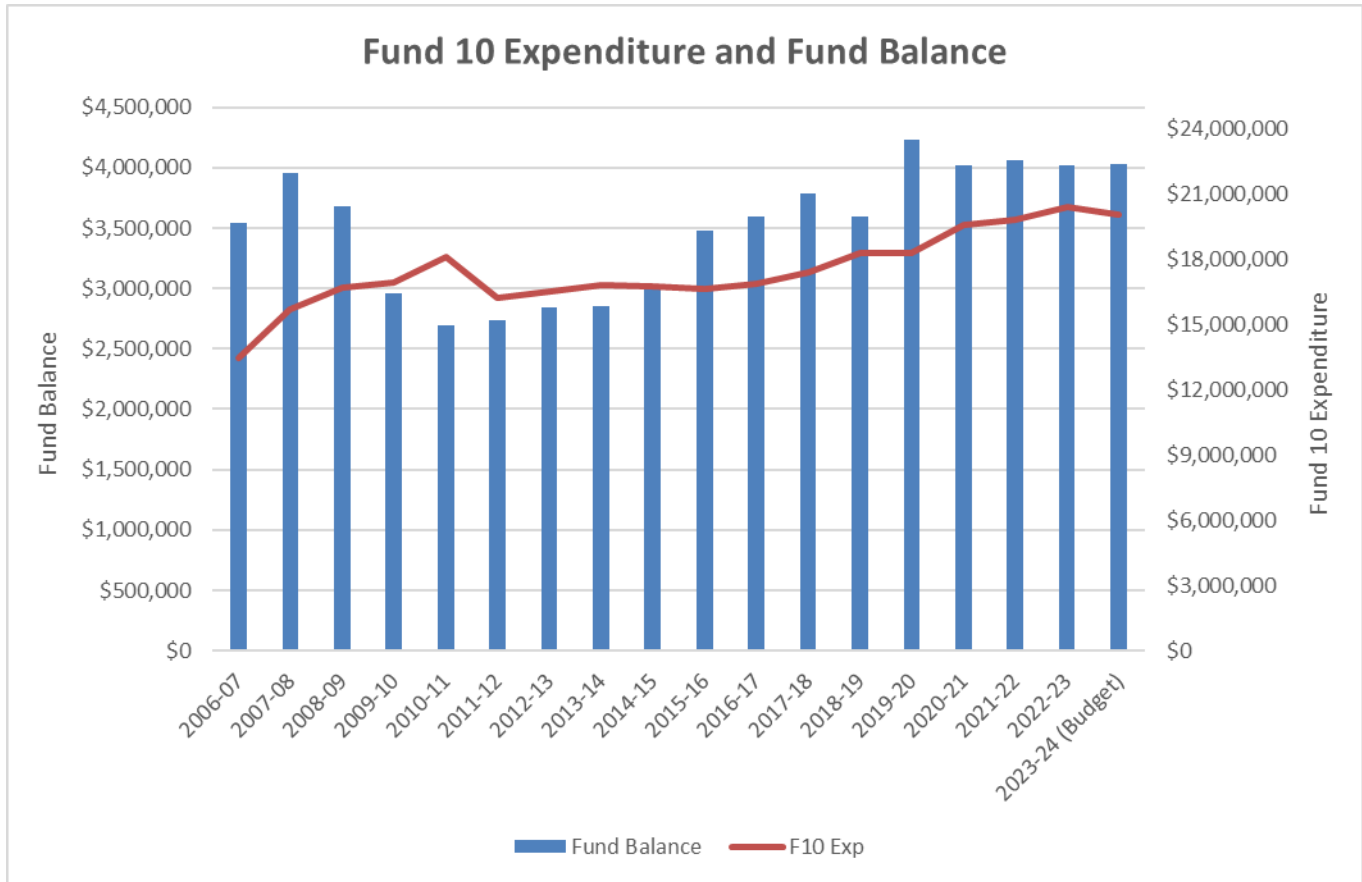
Fund balance does not factor in long-term assets (buildings or capital equipment) or long-term liabilities (bonds, loans). It is also not what the District has in available cash at any given time. Current assets include cash, accounts receivable, taxes receivable, dollars due from other funds within the district, monies due from other governments – other school districts as well as local, state and federal governments – and the value of pre-paid expenditures.

Current liabilities include accounts payable, payroll payable, benefits payable, amounts due to other funds, and non-employee benefits that individuals have paid the district for but not yet received (for example: retiree and COBRA health insurance).

The District’s fund balance at the end of the 2023-2024 fiscal year is projected to be \$4,027,695, or 20.1% of the operating budget. District policy is to maintain a fund balance between 15-25% of operating expenditures.

The charts below show the historical changes in the district’s fund balance:

Year	Revenues	Expenditures	Surplus/(Deficit)	Fund Balance	FB %
2019-20	\$18,930,579	\$18,295,625	\$634,954	\$4,228,362	23.1%
2020-21	\$19,376,112	\$19,583,838	-\$207,727	\$4,020,635	20.5%
2021-22	\$19,878,521	\$19,833,729	\$44,792	\$4,065,427	20.5%
2022-23	\$20,354,134	\$20,396,683	-\$42,550	\$4,022,878	19.7%
2023-24 (budget)	\$20,063,439	\$20,058,622	\$4,817	\$4,027,695	20.1%



A cautionary note about the use of fund balance to fund operations: depletion of fund balance erodes the ability of the District to fund programs and services and undermines the District’s credit worthiness. In addition, it exacerbates cash flow shortages which have historically required the District to borrow money in order to meet payroll and pay bills in November/December and in May/June, until state aid and property tax revenues are received. Fund balance is also used to fund emergency expenditures that arise during the school year for events or items that were not budgeted to occur, and a reduction in fund balance would restrict the district’s ability to meet emergency expenditure needs in a timely manner, should they arise.

CONCLUSION

We are very fortunate to have dedicated and talented teachers, committed staff and strong leadership in our schools. Our investment in these professionals and in the curriculum they create and teach relates clearly and directly to the success of our children. We are confident that, through application of the district strategic plan, each and every dollar supports and sustains the best education possible with the limited resources available.

The budget building process requires a knowledge and understanding of the day-to-day challenges in the schools, research about best practices, as well as analysis of trends in our own, as well as other, districts. Participants must learn about some of the technical aspects of budgeting and work together in a cooperative way that maintains a big-picture perspective. In the end, the success of the budget depends on an ongoing collaboration among many district stakeholders. We are lucky to work in a strongly collaborative environment every day. Thank you for reading!