1

Understanding the Budgeting Process

A budget will not work unless you do!
—Anonymous

The Basics of School Budgeting

Whether we recognize it or not, school leaders devote a vast amount of time and energy to school funding and budgeting issues. Those leaders who fail to do so commit a terrible disservice to their school and, more important, to their students. Why is budgeting so essential beyond the stated reason? First and foremost, the budgeting process enables school leaders to develop an understanding of the need for strong organizational skills and technical competence. Recall that numerous studies have documented the importance of strong organizational skills to an individual’s success and effectiveness as a leader. Hughes, et al. (2002) reveal that technical competence concerns the knowledge base and particular behaviors that one can bring to successfully completing a task. School leaders generally acquire technical competence, specifically in relation to the budgetary process, through formal education or training, but more often than not, it comes from on-the-job experiences (Yukl, 2001). Thus, one can readily note that one of the primary purposes of this book is to effectively serve as a school leader’s guide to appropriate and effective school-based budgeting.
Knowing how to properly develop a budget for a school and recognizing why budgeting and accounting procedures are an integral part of an instructional program are keys to understanding why goal development and instructional planning are significantly impacted by the budgeting process. Appropriation of public funds for a school is ensured by adopting a budget that includes all estimated revenues and proposed expenditures for a 12-month fiscal year. Budget accounts in most states are reported electronically under a Fiscal Education Information Management System (FEIMS). The FEIMS process will be examined in greater detail in Chapter 5. Therefore, the adoption of a district budget by the local school board provides the legal authorization for school leaders to expend public funds.

The nationally recognized and designated Governmental Accounting Standards Board (GASB) prescribes that budgets for public education entities be reported on the basis of a standard operating accounting code structure (Fowler, 1990). An example of a state’s operating accounting code structure is shown by fund, function, object, sub-object, organization, fiscal year, and program intent code in Table 1.1. Most states require that a standard operating accounting code structure be adopted by every school district. A major purpose of the accounting code structure is to ensure that the sequence of codes is uniformly applied to all school districts to further account for the appropriation and expenditure of public funds (Governmental Accounting Standards Board, 2001). This aspect of the budgeting process will be further explored in Chapter 5 as well.

Table 1.1  Example of a State’s Operating Accounting Code Structure

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</table>

1 = Fund Code. *How will the expenditure be financed?*

School district accounting systems are organized and operated on a fund basis. A fund is an accounting entity with a self-balancing set of accounts recording financial resources and liabilities. There are more than 500 different types of fund codes, and examples include: General Fund, Bilingual Education, Title I, Vocational Education, etc.

2 = Function Code. *Why is the expenditure being made?*

The function code is an accounting entity that is applied to expenditures and expenses and identifies the purpose of any school
district transaction. There are at least 27 different types of function codes; examples include: Instruction, School Leadership, Guidance Counseling, Health Services, etc.

3 = Object Code. What is being purchased?

The object code is an accounting entity identifying the nature and object of an account, a transaction, or a source. There are more than 35 different types of object codes and examples include: Payroll, Professional and Contracted Services, Supplies and Materials, Capital Outlay, etc.

4 = Sub-Object Code. For which department or grade level is the purchase being made?

The sub-object code is an accounting entity that is often utilized to delineate, as an example, secondary-level departments.

5 = Organization Code. What unit is making the purchase?

The organization code is an accounting entity that identifies the organization, i.e., High School, Middle School, Elementary School, Superintendent’s office, etc. The activity, not the location, defines the organization within a school district. There are more than 900 organization codes. For example, expenditures for a high school might be classified as 001 as the organization code for high school campuses are generally identified as 001-040. Middle School organization codes are typically stipulated as 041 through 100. Elementary schools fall into the organization code range of 101-698.

6 = Fiscal Year Code. During what year is the purchase being made?

The fiscal year code identifies the fiscal year of any budgetary transaction. For the 2007-2008 fiscal year of a school district, the numeral 08 would denote the fiscal year.

7 = Program Intent Code. To what student group is the instructional purchase or service being directed?

The program intent code is used to designate the rationale of a program that is provided to students. These codes are used to account for the cost of instruction and other services that are directed toward a particular need of a specific set of students. There are approximately a dozen program intent codes; examples include: Basic Educational Services, Gifted and Talented, Career and Technology, Special Education, Bilingual Education, Title I Services, etc.

NOTE: The reference numbers used in Table 1.1 were presented by the National Center for Education Statistics and the Governmental Accounting Standards Board in 1990 and revised in 1995. These coded numbers are representative numbers often assigned to state operating accounting code structures.
School leaders at some point in time, typically early in their careers, come to the realization that setting goals, establishing measurable objectives, developing action plans, incorporating the entire learning community in a participatory process, and making student enrollment projections are essential components in the development and implementation of an effective school budget. School administrators must recognize that it is not mere coincidence that the budget planning and development process coincides with the instructional or school action planning process. Both processes are essential to the overall success of any school or, for that matter, any school administrator (Brimley & Garfield, 2002). These two processes must be developed in an integrated approach to achieve the maximum benefits for schools and students. (See Chapter 4.) A school budget must have as its foundation the academic or action plan that details all of the educational programs and initiatives of a school. Such plans must be consistent with the school’s vision or mission. Each program, initiative, and activity within an academic or action plan dictate how appropriate budgetary decision-making, as related to funding appropriations and levels, will occur and how it will ultimately impact student achievement.

Breaking the Budgeting Myths

Many instructional leaders begin their careers with several mythical notions related to the budgeting process. The reason or reasons for such thinking may simply relate to the role of leader. Numerous myths have been readily associated with leadership and have been further documented in related research (Hughes, et al., 2002). For example, one leadership myth that is most applicable to the budgetary process stipulates: Leaders are born, not made. While certain natural talents or characteristics may provide some individuals with advantages over others, one’s training and experiences can play a crucial role in the development of leadership abilities, traits, and skills. This is especially true when one considers that most school leaders have limited knowledge about finance and budgeting but quickly realize that they must build upon their limited skills. Interestingly, several school-based budgeting myths quickly come to mind. These myths often serve to further complicate the budgeting process and can, in fact, serve to disengage a school leader from monitoring and managing an important, if not a critical, aspect of the education business—the school budget. Listed below are ten myths that are often experienced by and associated with school leaders and the school-based budgeting process (Sorenson & Goldsmith, 2004).
1. School leaders must have an analytical mindset.

2. School leaders must have an accounting background or degree.

3. Budgeting, like any fiscal accounting procedure, is too difficult.

4. Educators are “right-brained” and as a result would rather create than compute.

5. Budgeting is for the site-based decision making team to figure out.

6. Physical school-site inventories have little to do with the budgeting process.

7. Instruction and curriculum are more important.

8. School leaders simply do not have the time to meet the demands and dictates associated with the school budget.

9. Central administration retains most of the money anyway.

10. District business managers do not care about or understand the fiscal needs of individual schools.

Few factors can pose a greater obstacle to the school leader than unsubstantiated and self-limiting beliefs or myths about the budgeting process. We argue that by acknowledging and then avoiding these myths, the school leader is provided with the basis for better understanding, developing and handling a school budget. We believe that while these myths are unfortunately prevalent in the world of school administration, recognition of said myths also provide school leaders—particularly novice administrators—with insights that allow for the development of those essential skills to successfully emerge as effective managers of school-based budgets. Remember, being able to recognize and analyze your own experiences in terms of the budgeting myths may be one of the single greatest contributions that this text can provide.

**Delineating Between School Finance and School Budgeting**

School business has become big business in recent years. Many school districts across the nation are by far the largest enterprises in their communities in terms of revenues, expenditures, employment, and capital assets. Unfortunately, as school leaders we often fail to understand the
basis for funding public schools and, as a result, become a victim of our own demise by failing to recognize the financial challenges that are often associated with being a fiscal leader in a big business. What we often fail to understand is the fundamentals associated with school budgeting. In far too many instances, we have limited background, experience, or expertise with the budgeting process as related to the fiscal management of our schools. This dilemma is further complicated by the fact that as school leaders many of us have an inadequate understanding of the basic delineation between school finance and school budgeting.

School finance is often regulated by state and federal legislation, as well as by the courts. All of these have initiated, by law, stringent policies and procedures to infuse greater accountability through the development of financial plans and reports as related to a process that records, classifies, and summarizes fiscal transactions and provides for an accounting of the monetary operations and activities of a school district (Garner, 2004). School finance is most assuredly a concern for superintendents, district business managers, and school board members because the adequacy and equity of state and federal funding is the fiscal lifeline of a school district. However, this book is not about school finance. Our study will be from the perspective of the school leader who must be dedicated to better understanding and appreciating the interrelationship of the school-based budgeting and academic planning processes.

While many school leaders are focused on obtaining more money for their schools in an era of increased mandates and state funding constraints, other school administrators are concentrating on a much more timely and relevant question: Are schools allocating, budgeting, and spending their money intelligently (Park, 2004)? A recent review by the National Conference of State Legislatures (2003b) reveals that states still face a total budget gap of $2.8 billion. While this figure sends chills up and down the spines of school officials across the nation, this truth does not belie the fact that 31 states have made across-the-board spending cuts, and 11 of these states have made targeted cuts to K–12 education (National Conference of State Legislatures, 2003a). Therefore, school budgeting, unlike the finance side of educational funding, is directly related to the allocation of those specified, and far too often, scarce sources of funding dollars at the school level. To coin a financial term, the “bottom-line” to adequately and effectively delineating between school finance and school budgeting can be summed up by one simple word, allocation. Allocation is the key to understanding the school budgeting process. Allocation, as well as appropriate and efficient funding, is not only
important to state public education systems, the amount of money schools receive for budgetary purposes is critical to continued student success and achievement (Thompson & Wood, 2001). Nevertheless, school leaders must realize and understand that the school budgeting process is much more than the technical skill associated with the term allocation. Exceptional school leaders recognize that effective budgeting must be an integrated approach that incorporates team planning, visionary leadership, and data analysis to establish instructional priorities for necessary funding. These integrated approaches to school budgeting are explored in more depth in Chapters 4 and 5.

Sources of School Funding

The key to understanding sources of school funding is to realize that the expenditures correlated with student educational needs are affected by whether federal, state, and local governments appropriately share in the responsibility for supporting our schools (Thompson, et al., 1994). Naturally, adequate and equitable funding has become a critical issue not only with educators but with politicians and taxpayers as well. The reason why appropriate, adequate, and equitable funding has become a contested issue in public education is related to the fact that our founding fathers failed to provide any arrangements for education in the federal constitution. As a result, the funding of schools has become the responsibility of individual states, whether by design or by default, and in most instances not by choice. By placing the responsibility for public education funding in the hands of individual states, our nation has become, in reality, 51 systems of education and, more notably, 51 sources of school funding (Swanson & King, 1997).

Education is the largest single budgetary component of state and local governments (National Center for Education Statistics, 2005a). School districts receive nearly all of their funding for instruction, either directly or indirectly, from federal, state, and local governments; although the majority of this funding comes from local and state revenues as revealed in Table 1.2. While school districts depend, and most certainly place special emphasis, on the amount of federal funds received, the percentage of federal support for schools is relatively insignificant in relation to state and local funding. For example, many states provide well over 50% of school district funding. As also noted in Table 1.2, federal funding typically amounts to less than 10–15% of a district’s funding dollars, with local revenue coming close to or exceeding that of the state funding allotments (National Center for Education Statistics, 2005a).
Table 1.2  Percentage of Revenues by State for Education

<table>
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(Continued)
Table 1.2 (Continued)

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NOTE: The totals for each row may not equal 100% due to rounding or due to states receiving intermediate revenue for education. Intermediate revenue is defined as receipts from county or regional governments that are typically quite small or nonexistent in most states.

Naturally, a prerequisite for understanding the budgetary process is a keen realization of where the money comes from—the sources of money received to operate school districts. In financial circles, the appropriate terms are revenue, income, and fiduciary funding (Bannock, et al., 1998). The opposite side of the “money received” coin is expenditure, or “money spent.” We will examine sources of income in more detail later in this chapter. However, to better understand the relationship between revenue and expenditure, Figure 1.1 reveals, on a per-pupil basis, the revenue and expenditures of Texas schools during the fiscal year, 2003–2004. The revenue amounts displayed in Figure 1.1 combine state aid and property tax levy figures from state agencies with the amounts in the budget for other sources of school revenue.

Revenue is obtained primarily from tax collection and the sale of bonds. The tax collection funds provide the basis, in fact the majority, of money received and money expended for the instructional and operational aspects of a school district. Bond sales provide revenue necessary for the construction of new school facilities.

Income is a particular funding category that is representative of funds received from the sale of goods and services. A perfect example of income funding is the district food services program. Since income can be generated from the sale of food items in the school cafeteria, district
administrators must develop budgets that project sales and anticipate expenditures, and then they must implement and monitor a budget. While a food services program or a food services director may at times be an irritant to a school administrator, both are essentially important because of the potential for additional school district income.

The fiduciary category refers to funds that are received from donations and thus must be managed by or entrusted to a school district in the most legal and ethical manner possible. While these dollars are important, such funds are generally not critical to the instructional operation of a school district. However, these same dollars may be very significant to a school that needs additional dollars to finance school-related initiatives and activities not normally funded by a school district. A perfect example of fiduciary receipts are monies generated from fundraisers and collected by student clubs, campus organizations, graduating classes, or booster clubs; as a result, the school district must agree to be the depository of these funds and must ensure that the funds are expended appropriately (Vail, 1999).

**Figure 1.1** Revenue and Expenditures per-Pupil, Texas School Budgets, 2003–2004

*Source: Figures utilized in this report were provided by the Property Tax Division of the Texas Comptroller’s Office and the Texas Education Agency (2004).*
Expenditures are exactly that—money spent. Whenever money is spent, the expenditure must be charged against a revenue account and source. School leaders will invariably note that within their budget software listings or on their budget spreadsheets the accounting term *encumbered* appears. Encumbered or encumbrance, by definition, is by no means the same as expenditure. However, both terms maintain a compelling correlation in terms of the budgetary process. For example, when a specified school account is used to initiate a purchase order, the funds are immediately set aside or encumbered, indicating that the dollars for products or services ordered have been committed. At this point, a school leader can expect the purchase order to be processed, and when the goods are received, a payment will be submitted. When the payment has been issued, an expenditure of district dollars has occurred.

The expenditure of funds must always be accounted for, and thus as a school leader, you may complain from time to time about the numerous business department forms that have to be completed, such as purchase orders, requisitions, travel reimbursements, and vouchers, all of which are examples of the paperwork commonly associated with district expenditures. Filling out these forms may seem to be a nuisance, but they ensure fiscal accountability, and each may very well be the necessary documentation to keep you, the school leader, out of a legal entanglement (Kemerer & Walsh, 2005). Mutter and Parker (2004) in their book, *School Money Matters: A Handbook for Principals*, note that financial forms and accompanying safeguards are “designed to meet three important school financial objectives: (1) to protect school staff from suspicion of theft or laxness, (2) to protect school assets, and (3) to fulfill the stewardship responsibility for public funds expected by the general public” (p. 1). When fiscal accountability is ignored, for whatever reason, the end result is less than attractive—much less. For example, consider the following “no way out” situation involving an accounting clerk.

**Veronica’s Problem**

Veronica, an accounting clerk, was often embarrassed and angered by the numerous telephone calls she received at work from creditors who were demanding money for her husband’s excessive expenditures. These accumulated debts arose from her husband’s business. Veronica was just as responsible as her husband for these extensive debts, since she and her husband resided in a community property state. His debts were her debts. Their financial predicament had reached a level of desperation, and Veronica knew something had to be done.
One day at work, Veronica was seen slipping a vendor check into her purse by a friend and colleague, Jenny. Jenny had a moral and ethical obligation to report the fraudulent actions of Veronica. However, Jenny was reluctant to do so because her identity as a “whistleblower” might be revealed. Some months later, a company-hired Certified Public Accountant (CPA) took basic steps to prevent organizational fraud. He soon learned from Jenny of the embezzlement scheme that Veronica was regularly playing out at the office.

Veronica subsequently confessed that she was processing certain invoices twice. When she was in need of cash, Veronica would make a copy of the invoice before stamping the original. The two were almost indistinguishable. Next, she would process the original invoice, send it on for approval, and then process the “copied” invoice several days later. The same invoice was paid twice. When the vendor realized the overpayment, it would send a refund check that always landed on Veronica’s desk. Veronica pocketed the check and, in turn, her husband forged an endorsement and subsequently deposited the check in his business account. The whole fraudulent scheme occurred over a two-year period, and more than $200,000 was embezzled. Veronica was ultimately indicted and convicted (Wells, 2002).

Veronica’s problem is an obvious example of how school-based budgeting is much more than a technical or managerial skill and process. One must understand that the budgeting process constantly overlaps into the arena of certain behaviors—visionary, integrity, fairness, and ethical, for example. These behavioral concepts, along with their impact on school-based budgeting, will be explored in more detail in Chapter 2.

Finally, district revenue funds are generated by and large through taxes assessed on the general public and on for-profit businesses. As was noted earlier in this chapter, school districts receive the vast majority of their revenue for instruction from federal, state, and local governments. Let’s now examine specific sources of generated revenue or income for school districts.

**Federal Sources of Income**

Federal revenue comes in the form of different and distinct sources of transfer payments known as general, categorical, and block grants aid. General and categorical aid, the major source of federal income for education, has significantly impacted and expanded the capabilities of school districts to enhance student achievement (Swanson & King, 1997).
General aid flows from federal and state governments with few limitations to local school districts. General aid provides the largest proportion of financial support for school operations. Local school boards and district administrators largely determine how such income will be allocated to educational programs and other related expenditures.

Categorical aid is a source of funding to school districts that links funding to specific objectives of the government in support of specified programs such as special education, gifted and talented education, career and technology education (formerly vocational education), and compensatory education. Unlike general aid, categorical aid must be utilized for certain groups of students (e.g., those with disabilities), a specific purpose (e.g., pupil transportation), or a particular project (e.g., construction of a school facility). Most often, categorical aid calls for annual applications, documentation of expenditures, and frequent program evaluations and audits. Categorical aid was once the predominant form of federal income to states and school districts. However, other forms of federal aid now serve as income supplements with fewer restrictions at the local level. In recent years, much of the categorical aid has been absorbed into block grants to reduce the local paperwork and personnel productivity burdens associated with federal funds to education (Swanson & King, 1997).

Block grants aid provides funding for a wide range of services, with federal requirements for planning, implementing, and assessing programs being much less stringent than those associated with categorical aid. Block grants provide for local funding on the number of students rather than through a competitive application process that identifies particular educational needs. Block grants provide local districts greater latitude and further give district administrators more discretion in program designs. As a result, local school boards and district administrators typically prefer block grants because they minimize governmental scrutiny and control, and they further provide for more opportunities for district officials to meet local priorities (Brewer, et al., 2001).

The largest of the block grant programs is Title I funding which reaches 11 million disadvantaged students. Title I monies, in the form of block grants, go directly to school districts and schools where it is most needed and fund, for example, extra teachers and programs such as Success for All—all of which help students master reading, writing, and mathematics (Feldman, 2000). Over the years, block grant funding has served to focus on and improve proven programs that have turned around entire schools and even school districts.
A perfect example is the educational system in Hartford, Connecticut, where student achievement in this poor, urban school district—once ranked academically lowest in the state—recently made significant improvements in the area of math and reading test scores (Congressional Quarterly, 2000).

Federal aid has certainly served to promote equity and equality in education over the last 25–30 years and has generally improved the quality of education for all students. However, the “strings attached” or restrictions and regulations that generally accompany such financial aid have often been considered nothing more than unwarranted intervention by the “feds” into affairs at the local level. As opposed to promoting efficiency in funding, the federal dollars, and attached stipulations, have often stifled local school officials’ efforts in addressing student needs and community considerations for better schools (Swanson & King, 1997).

State Sources of Income

Most states have as their source of income property taxes, sales taxes, and income taxes. These sources of income determine the amount of state funding for school districts. This revenue allotment is then typically distributed to the differing school districts across a state by means of a state-aid formula (Jones, 1985). These funding formulas are generally driven by student enrollment, and again this aid comes primarily from assessed taxes. While property taxation remains the major source of local revenue for schools, the local tax base is typically insufficient to support a school district. Therefore, most states have developed state-aid formulas as the basis for infusing some fundamental element of equity from district to district within a state. State-aid formulas are the result of legislative choice and litigation force (Fisher, et al., 1999).

The purpose of state aid formulas is to counterbalance disparities in educational equity and opportunity that would most certainly be present if school districts depended solely on the local tax base (Guthrie, et al., 1988). An example of such a disparity is illustrated in the following scenario: A school district located along a state coastline near a major seaport is the recipient of tax dollars generated by several major petrochemical corporations. These taxable entities generate significant per-pupil wealth on the basis of taxable property. A second school district, similar in size and population but located further inland, is solely dependent on the agribusiness industry, and thus the district receives only limited revenue from its economically depressed tax base. Another example is often evident in states with
large urban centers which face vast disparities in their tax base due to ever-growing suburbs and the related citizenry and corporation flight to the nearby bedroom communities.

Most states develop foundation programs to facilitate the state-aid formulas. These programs are the mechanism by which the equalization of resources from district to district can occur. The foundation programs allow for the difference in the cost of a school program and the amount each school district must contribute from local taxation (Thompson & Wood, 2001). Today, very complex state-aid formulas advance the foundation programs, and such formulas are generally related to a fictitious “weighted student” consideration. After the foundation program cost is determined by formula, financing is equalized by determining the local share for each individual district and then the remainder is funded by state aid. State aid for individual school districts equal the foundation program cost minus the local share. However, it is worth noting that state aid formulas have come under intense scrutiny in recent years, and to date, legal challenges related to formula funding continue to come before the United States Supreme Court (Garner, 2004). For example, the issue of equity in relation to educational opportunities for all students regardless of socioeconomic background and/or ethnicity continues to be a critical issue before the courts, both state and federal, as well as state legislatures. Inequities have long plagued public schools, particularly in the area of financing educational facilities with minimal funding reforms and state-led efforts. This is not to say that the courts have completely ignored equity in public school financing. Consideration by the courts is most certainly revealed in several recent court cases in which lawsuits have demanded that states provide adequate and equitable educational facilities. Unfortunately, the operative term and process utilized in response to these legal entanglements has most often been nothing more than “adequate.” Court cases from Texas (Edgewood v. Kirby, 1986 and West Orange Cove CISD v. Neeley, 2005), Ohio (DeRolph v. State of Ohio, 2000), New Mexico (Alamogordo vs. Morgan, 1995), West Virginia (Pauley v. Bailey, 1994), and Tennessee (Small Schools, 1988) serve to exemplify just a few decisions that have impacted, often minimally, equitable facilities and funding for all students (Brimley & Garfield, 2005).

Local Sources of Income

The majority of school districts in the United States obtain their locally generated income from at least one of the following sources: ad valorem (property) taxes, sales taxes, income taxes, or sumptuary (sin) taxes.
Property tax is the most common source of income for school districts. Typically, a tax is levied on property such as land and buildings that are owned by individuals and businesses. Generally, a property tax is determined on the basis of a percentage of the true market value of each piece of property assessed. These assessments are rarely accurate since local assessors either over- or under-assess the value of the property. Typically, the assessed value of the property is adjusted to an agreed-upon percentage of the market value when it is sold (Funkhouser, 1999).

Property taxation remains a largely complicated and particularly controversial source of local income for school districts because numerous complexities are associated with the assessment process. Homestead exemptions, tax abatements, legal entanglements, taxpayer associations, and under-assessments of property all serve to erode the “true” tax base for individual school districts. However, property taxation continues to be the most stable income base as well as a dependable source of income for school districts (Hylbert, 2002).

Another form of taxation that serves as a revenue source for many school districts is the sales tax which is quite popular in many states. This tax is assessed on the price of a good or service when it is purchased by a consumer. The seller of the merchandise or service collects the sales tax dollars, which is included in the purchase price, and transfers the amount of the sales tax to the state comptroller offices. Since this tax is based on sales, its yield is quite elastic. As a result, a sales tax as a form of revenue for school districts is only as stable as the economy (Garner, 2004).

Some school districts acquire their local source of income from a state income tax that is levied on corporations and/or individuals. Income taxation is the most widely accepted form of taxation for schools, and it is considered the most equitable of any source of taxation. Over the years, states have initiated income taxation as a source of funding education. In a majority of our nation’s states, the taxing of income is considered the most appropriate mechanism for property tax relief. In addition, income taxation provides a high revenue yield and creates minimal social and economic disruption (Swanson & King, 1997).

Very few school districts derive income from sumptuary taxes on items such as tobacco, alcohol, and gambling. This type of taxation is somewhat different than the income and property tax because it is based on “sin” sales. Due to this dependency, the tax yield is quite elastic and thus, it—much like a sales tax—is only as stable as the economy. Also, the tobacco and alcohol industries extensively lobby
state legislators, and, as a result, this type of taxation has not necessarily served as a viable taxing alternative (Guthrie, et al., 1988).

Another source of educational revenue can be dollars received from a lottery—an assessment on legalized gambling. Many individuals believe that the proceeds from a state lottery system provide great sums of income for education. Nothing is further from the truth, although this argument has been used for years by proponents for the legalization of state lotteries. Research reveals that the individuals most susceptible to the promises of a lottery are those in the lower income bracket, which further makes the proceeds from this form of state income quite regressive (Birrup, et al., 1999). Most notably, there is no evidence that any state lottery has significantly supported or benefited any school district or, for that matter, public education in general (Jones & Amalfitano, 1994).

Now that we have explored several of the possible sources of income for school districts, it becomes apparent that wherever the funding is derived, allocations to individual schools at the district level are made, and thus school leaders have as one of their many responsibilities the task of developing a budget. Developing a school budget can be an arduous undertaking but it can be completed with some sense of ease and satisfaction when a school leader is able to utilize specific steps or methods to effectively and efficiently plan for a successful school budget.

**Ten Steps to Budgeting Success**

There are ten important steps to successful and effective budgeting. These steps are identified below with brief descriptors explaining why each of them is critical to a school leader’s success in developing, implementing, and evaluating a budget.

1. **Determine the Allotment**

   Before deciding what educationally related expenditures to make, it is important to know the specified funding allotment that has been appropriated within each budgetary category. Furthermore, certain budgetary allotments can only be used for a variety of specified services and expenditures at the school level. As a result, some funds are more restrictive than others. These restricted funds are often associated with Title I, Bilingual Education, and Special Education dollars and programs. Restricted funds are examined in more detail in Chapter 6.
2. **Identify Fixed Expenditures**

Recognize and note those expenditures that do not vary from year to year. Set aside the necessary funds in the amount of the fixed expenditures before building the school budget.

3. **Involve All Parties**

Whether at school or home, or within any organization, everyone should be involved in the budgetary decision-making process. By involving as many parties as possible, a school leader can more effectively ensure ultimate “buy-in” as related to the school budget. All parties include, for example, faculty and staff, parents, students, community members, and any other interested individuals. When all parties are provided with the opportunity for input, with their particular issues being given noteworthy consideration, “buy-in” is more likely, and any plans, preparations, or budgetary considerations are less susceptible to interference or possible sabotage by a disgruntled member of the learning community.

4. **Identify Potential Expenditures**

The effective school leader reviews past budgetary records to better identify and predict future expenditures. By knowing which expenditures are necessary and imperative, a school administrator can help faculty and staff avoid making impulsive purchases.

5. **Cut Back**

Most newly created school budgets are over-budgeted. As a school leader, it is your responsibility to examine all potential expenditures and determine where cutbacks can occur. Remember that cutting back too severely can build discontent among the faculty. School budgets that are continually out of balance lead to greater fiscal sacrifices and may very well lead to a financial point of no return. So cut back as necessary and be aware that budgeting is an exercise in self-discipline for all parties. A simple yet effective way to cut back involves implementing a thorough physical inventory. School administrators should do more than just go through the motions when completing a physical inventory. Such an inventory can very well identify areas where unnecessary purchases can be avoided. Consider the following: Why continue to purchase supplies such as chalk, erasers, staples, paperclips, etc. when said or similar items may very well be in abundance in a classroom or office closet or central warehouse?
While cutting back is important in the school business, the creative school administrator is always seeking “windfalls.” Additional funding sources are available to those administrators who are willing to put forth the time and effort to seek financial assistance. For example, one school in a property-poor district utilized the campus leaders, site-based team members, and the parent-teacher organization to canvas the community seeking adopt-a-school partners. A partnership with a large retail corporation proved extremely successful. The school was able to acquire not only essential supplies and merchandise for student use and consumption, the corporation also provided funding for computers and other important resources that otherwise would not have been available to either students or staff. Therefore, instead of living by the adage *Show me the money*, adopt a more useful motto: *I’ll find the money!* An excellent source for finding, raising, and attracting extra dollars for a school or school system is *Fiscal Fitness for School Administrators* by Robert D. Ramsey (2001).

### 6. Avoid Continued Debts

The effective budget manager knows exactly what funds are out of balance and where debt is or has accumulated. Many school leaders fail to list and total their debts during the course of the fiscal year, and thus wait until the end of the school year to make necessary budget revisions to amend for such shortsighted calculations. In addition, some states and school districts do not allow individual school-sites to acquire debts on a monthly or annual basis. Such a policy is not only worthwhile, but wise. Nevertheless, debt reduction can be readily achieved by avoiding unnecessary purchases. Consider the following example: Recall the wise, old advice that was shared with you and your spouse when first married: “Most unhappiness is caused by giving up what you want most for what you want at the moment!” Life as a school leader is stressful enough without further complicating matters by overspending at the expense of the school budget, if not the student population. Remember, the most important word you can learn to use as a school administrator, specifically in connection with the school budget, may very well be *no*—especially when it comes to unwise or inappropriate spending!

### 7. Develop a Plan

Any budget—school, home, or business—should be based on a plan. From a school perspective, an educationally centered action or improvement plan has to be developed to target and prioritize instructional goals
and objectives along with school programs and activities. In addition, a second plan of action (school budget plan) is designed to identify budgetary priorities, focusing on appropriations and expenditures. Furthermore, such a plan is designed to determine what programs and activities match the budgetary allotments for the school.

8. Set Goals

Many would insist that “setting goals” should be first and foremost on any list of budgetary considerations. No argument here. However, it is important that the effective school leader do all the preliminary work of determining what funds are available before determining how to spend the funds. Nevertheless, setting goals (whether management or instructional) is the one fundamental step that all self-disciplined administrators utilize and the one step that most are—unfortunately—inclined to skip. As the budgetary process is developed and established, it is imperative that consideration be given to those issues, demands, and dictates, simply put: those purchases that are valued as necessities or non-negotiables. Again, by involving all parties, goals can be identified and set. But remember, setting goals takes more than money; it takes time, effort, determination, and considerable thought and preparation. How does a school leader, working in conjunction with a learning community, set goals? Listed below are a few essential considerations.

1. Establish priorities—ascertain what is instructionally important.
2. Decide what can wait until later in the budget cycle or until the next school year.
3. Assess what is important today but will not be tomorrow.
4. Determine what priorities are meaningful compared to those that are mandated.
5. Submit various proposed budgets (by department, grade level, etc.) to the site-based committee which serves in part to determine if the allocated dollars within each budget correlate with the established goals of the school.

Finally, remember that goals can and will change. Therefore, as the school leader and budget manager, it is imperative that you, in collaboration with the school’s decision-making team, regularly assess and evaluate each budgetary goal and make any necessary changes as the school year progresses.
9. Evaluate the Budget

After a plan has been developed, it needs to be put into action. Take time; meet at least once a month with the decision-making team to evaluate the budget process to better determine if the established goals and the budgeted dollars are equitable and compatible. Planned budgeting and goal evaluation go hand-in-hand. Always seek answers to the following questions:

1. Is the budget within the allotted limits, or do adjustments (amendments) need to be made on the basis of alternative need or changing vision?
2. Is progress being made toward the established goals?
3. Are purchases coinciding with planned goals?
4. Has the budget process been successful when compared with the established plan and goals?
5. What improvements can be made in the future?

10. Abide by the Budget

Abiding by the budget means living by the budget. As the school leader, you must set the example in all areas of instructional leadership for others at your school to follow. This is most certainly true in relation to the school budget. “Time on task” is an old adage in our business, but nothing rings more true in terms of the school budget and the necessity for you—the instructional leader—to monitor, evaluate, and abide by the budget and the accompanying action plan that you have developed.

Final Thoughts

As the school leader, you should invest the necessary time and energy to deal with the funds appropriated to you and the learning community. Wise budgeting can bring you and your students a sense of accomplishment and even fulfillment—most notably when the instructional program improves and student achievement excels. However, before you budget, plan. Planning means developing a vision, establishing goals, determining objectives, and initiating strategies for school implementation in a continuing effort to increase student achievement. Each of these planning indicators is an essential element in the development of an effective budget using an integrated approach to budgeting.
A budget is not a “once-a-year” event, something you establish and never examine again. A budget must be abided by and it must be reviewed and amended on a regular basis as the needs of its academic counterpart change. This requires ongoing evaluation and revision. Nothing in life is perfect, and the same holds true for school budgets. Academic goals—while imperative to the budgeting process—have to be reorganized and adjusted from time to time. Action planning and goal development, academic improvement, and budget management must be integrated if school leaders intend to bring about educational excellence and increased student achievement. Certain standards that will be analyzed in Chapter 2 must be emphasized and incorporated by the school leader if the budgeting process is going to meet with success. Abide by the budget; make the necessary changes, and always follow-up with on-going evaluation. Allow self-discipline to be the guiding factor in budgetary decision-making, and remember that an integrated budget and academic action plan will not work unless you do!

Discussion Questions

1. Consider each of the local sources of income that support school districts. What are the advantages and disadvantages of each in relation to equity, yield, and taxpayer acceptance?

2. Why is it important to integrate the school budget and the academic or action plan? How can the budget and academic planning processes be integrated?

3. Which of the budgeting myths pose a more fundamental obstacle to the school administrator in relation to the development of a campus budget? Why?

4. What might be considered a serious risk factor that a school administrator could face in relation to fiduciary receipts?

5. What are the commonalities and differences of the three federal sources of district income?

6. Should any one of the 10 steps to budgeting success be considered more important than the others? Which one and why?

7. To better understand the percentage of revenues, as exemplified in Figure 1.1, contact the official state education Web site as well as the school business administrator or superintendent of schools to determine the sources of income for the school district.
Case Study Application: Fiscal Issues and the New Principal

The application of a case study as related to campus visioning, planning, and budgeting will be presented at the conclusion of each chapter in this book to provide applicable and relevant workplace scenarios so the reader can put into practice the knowledge acquired through textual readings.

Part I—“Boy, Do I Have a Lot to Learn!”

Dr. Ryan Paulson, new principal at Mountain View Middle School, had arrived at Vista Ridge Independent School District from a neighboring state. While Dr. Paulson certainly knew and understood certain aspects of the fiscal and budgetary processes of his former state, he realized that he needed a refresher course in budgeting, especially as related to the fiscal issues he might face in his new state and school district.

Dr. Paulson decided to stop by the administrative offices of Vista Ridge Independent School District and visit with the superintendent, Dr. Mildred Dunn, as well as the associate superintendent for school finance, Dr. Gene Corley. Certainly, these two individuals could bring him “up to speed” on the fiscal expectations of his new state and school district. As good fortune would have it, the first two individuals he encountered, as he stepped into the main offices, were Dr. Dunn and Dr. Corley. Dr. Corley, a most gregarious individual, was the first to see the new principal and hollered out at him: “Hey, hot-shot, did you get to eat some of that good barbeque that I told you about?” Dr. Paulson responded that he had not yet had the opportunity, but he was looking forward to getting over to Elginton for a tasty plate of sausage and ribs. Dr. Dunn then spoke up and asked what was on the young man’s mind? “Well, since you’ve inquired” replied Dr. Paulson, “I need some guidance about the state’s fiscal policies and the district’s budgeting practices.” Dr. Dunn suggested that all three step into Dr. Corley’s office for, as she put it, “a quick review of School Budgeting 101.”

“School budgeting and finance, in this era of change, is a real juggling act,” noted Dr. Dunn. “However, let’s start with the basics and get you on the right track before school starts,” suggested the superintendent. Thus began an afternoon of one learning experience after another. By the conclusion of the meeting, Dr. Paulson had come to realize that a costly war on terror, an economy hit hard by high energy costs, and federal and state accountability standards and mandates, as well as numerous other conditions had negatively influenced the ability of both the state and local districts to raise tax revenues to meet the demands of educating today’s students. These challenges most notably and negatively reflected on each school’s list of priorities and each district’s ability to finance them.

The bottom line of the first meeting between the three parties revolved around the realization that education must be viewed as an investment in human capital. Resource allocations to public schools are the responsibility not only of the federal and state governments but of the local school district as well. Moreover, funding the rapidly increasing costs of education is an ongoing...
challenge for schools, and such funding is becoming more frequently associated with accountability expectations and standards at the local level.

A most interesting point that had been made by Dr. Dunn related to the proposition that educational services and funding must be provided with equality, but could it be provided equitably? “Wow” thought Dr. Paulson to himself, “Does anyone have an answer to that question?” Furthermore, Dr. Paulson recognized that even though the cost of education continues to increase annually, this burden is eased when one realizes that while the costs of public schooling involves money, mostly in salaries, much of the cost is readily returned to the marketplace, thus benefiting the economy, consumers, local households, individual citizens, and most important, local students. This meeting reminded Dr. Paulson of a statement of fact that had been drilled into his head by a former professor in his principal certification program at Union State University: “While the cost of education may be high, the defining and measuring result must always be quality in learning.”

Finally, Dr. Paulson had been directed to the state’s Web site regarding Operating Accounting Codes and Structures. It was essential that he quickly learn the proper budgetary coding procedures as dictated by the state’s education agency. He had already memorized the Web site address, and was now ready to adapt to the new coding structure and fiscal practices associated with his new school budget. As he left the district’s administrative offices he could not help but think: “Boy, do I have a lot to learn!”

**Application Questions**

1. What is meant by the following terms: adequacy, equality, equitable, human capital, quality?

2. How is the theoretical concept, “education must be viewed as an investment in human capital,” realized in your community? Provide concrete examples.

3. Can educational services and funding be provided with equality and equity? Support your answer.

4. What is meant by the quote: “While the cost of education may be high, the defining and measuring result must always be quality in learning?” How does this proposition relate to the concept of vision development?

5. Contact your business department administrator or school superintendent or state finance person to obtain a copy of the state’s Operating Accounting Code structure. How is this structure similar to or different from the example utilized in Chapter 1?
Dr. Ryan Paulson, now into his second semester as principal at Mountain View Middle School, had just developed—in collaboration with his site-based decision-making team—the campus budget for the next school year. He had learned so much since that initial meeting with Dr. Dunn and Dr. Corley the preceding July, but, as is always the case, so much more was yet to be realized. The budget for Mountain View Middle School included funds to retain three special education aides who assisted with the inclusion program that was adopted last school year after significant research by and professional development for faculty and staff. These aides worked with special needs students who warranted considerable assistance and who required significant class time to complete the assigned academic tasks.

When the budget was submitted to the associate superintendent for secondary instruction for approval, she cut the aide positions and transferred the funds to the appropriate account for purchasing laptop computers for the recently renovated middle school computer lab. Although Dr. Paulson realized the importance of purchasing the computers and had thought that the school district would fund such items, he believed that the functioning of the special needs students in the inclusion program would suffer by the budgetary reduction of the three special education aide positions. Anyway, he thought to himself: “Well, it’s my money and I should be able to spend it how I please!”

Application Questions

1. Regarding his concerns about the transfer of funds as made by the Associate Superintendent of Secondary Instruction, how should Dr. Paulson address this budgetary issue and decision-making consideration? How is this particular issue related to a trio of concepts: integrity, fairness, and ethics?

2. What are the potential implications as related to the decision made by the associate superintendent in relation to the site-based decision-making team, the school community?

3. Identify the possible repercussions as related to the special education department. What legal issues must be considered as related to the removal of the special education paraprofessionals, as well as the maintenance of services to the students, in light of Individual Education Plans (IEPs) and associated stipulations? Can funds that were
originally designated for the special education paraprofessional be transferred and used to purchase computers? If such action is legal, is it fair or ethical? Support your conclusions.

4. Immediately after the budget changes are made public, Dr. Paulson receives several telephone calls from the parents of a number of the students in the inclusion program. These parents are disturbed about the effects on the learning environment in their children’s classes as a result of the loss of the aides. How can Dr. Paulson best respond to these parents?

5. What did Dr. Paulson infer by stating: “Well, it’s my money and I should be able to spend it how I please”? Could such a statement be justified in relation to the Ten Steps to Budgeting Success? If so, support your answer.