

SCHOOL FINANCING FUNDAMENTALS



Former Governor Lowry once said that the most embarrassing policy question he was ever asked was where exactly does all the money go that we collect for K-12 public education. Part of the challenge in answering this question rests with the complicated budget process itself; another rests with the large organizational structure surrounding K-12 public education.

School directors certainly aren't the only people who need to make sense of the budget, and they definitely aren't the only decision-makers when it comes to how the money is spent. But school directors are responsible to provide proper financial management of their districts. Unfortunately, in most districts, the budget process is complex and unwieldy. In fact, when newly elected school directors see their first budget, they often wonder how to make heads or tails of it.

Duties under the Washington State Constitution

Article IX, Sec. 1: Preamble

It is the paramount duty of the state to make ample provision for the education of all children residing within its borders, without distinction or preference on account of race, color, caste, or sex.

Article IX, Sec. 2: Public School System

The legislature shall provide for a general and uniform system of public schools. The public school system shall include common schools, and such high schools, normal schools, and technical schools as may hereafter be established. But the entire revenue derived from the common school fund and the state tax for common schools shall be exclusively applied to the support of the common schools.

Where do the expenditure and revenue numbers come from and on what assumptions are they based? What are the major budget drivers and the key variables? Is trend data available? Are the central policies adopted based on sound research and best practices? How do we know?

Confusing or not, the budget is the most important document school board members will review during the course of any year. It is through the budget process that priorities are established, refined or scrapped. The budget provides an opportunity to discuss and establish benchmarks and evaluation measures. Understanding how to use the budget as a snapshot of the past and a tool for the future is essential to good management of scarce resources.

Part of the difficulty in understanding how K-12 education is financed is that it is multi-faceted: layers of funds, funding formulas, programs, reporting, accounting, and audit requirements. The pages that follow attempt to break the K-12 education budget into small bites that are easily digested and understood.

Organization: constitutional and statutory

Provision for the funding of Washington state's public schools begins with the state constitution. This foundation is further shaped, tempered, and sized by state and federal laws, rules adopted by the state Superintendent of Public Instruction and the State Board of Education, court decisions, the will of Washington citizens as expressed through the initiative process, and to some extent the state of the economy. Each of these factors play a somewhat different role.

The state constitution supplies the primary legal foundation for the state's public schools saying that, "It is the paramount duty of the state to make ample provisions for the education of all children residing within its borders....The legislature shall provide for a general and uniform system of public schools."¹ Tradition and the courts have interpreted this to mean that the legislature will define and fund basic education.

Accordingly, the legislature drafted the Basic Education Act in 1977 and has followed this with several revisions since.²

Superintendent of Public Instruction (SPI)

The Office of the Superintendent of Public Instruction is established by the state constitution. The superintendent is elected, on a non-partisan basis, every four years by the voters of the state. The SPI is an executive of the state charged with "supervision over all matters pertaining to the public schools and shall perform specific duties as may be prescribed by law...."³

The superintendent's chief responsibilities are to:⁴

- Collect and report school information to state and federal authorities, prepare requested reports, and provide state agencies with information for policy and budget making
- Secure laws and appropriations from state and federal governments and implement those laws
- Apportion and distribute money to local school districts and educational service districts, approve and monitor the budgets of the ESDs and school districts, and administer school construction funds
- Provide technical help in finance and curriculum matters to the ESDs and school districts,
- Issue certification for teachers, support personnel, and administrators of the K-12 system
- Act as an *ex officio* member and CEO of the State Board of Education

In addition to providing direction to ensure that students achieve the state's four learning goals,⁵ the SPI is required to estimate the amount of state support necessary to carry out the law. Simply stated, this means the SPI must submit to the governor a proposed K-12 budget for each biennium. The governor adds the SPI's

projections into his December semi-annual budget proposal to the legislature.

Policies, rules and regulations adopted by agencies of the state in interpreting and carrying out state law are contained in the Washington Administrative Code (WAC). Both the Superintendent of Public Instruction (SPI) and the State Board of Education (SBE) adopt rules to administer, implement and ensure compliance with the program requirements of the Basic Education Act.⁶

The State Board of Education

This eleven-member body, created in 1877 by the Legislature of the Territory of Washington, consists of a member from each congressional district, a representative of the private schools, and the Superintendent of Public Instruction. Two high school students serve as *ex officio* members of this board.

The duties of the board are to establish rules, regulations, and guidelines for educator certification; approve continuing education programs; allocate state assistance for school construction; approve school district basic education programs, accredit schools, set minimum high school graduation requirements, and approve private schools.⁷

The board annually reviews each school district's K-12 education program to determine compliance with the basic education requirements. Each school district is certified as being in compliance or noncompliance every March. Basic education support funds may be deducted for a school district found in noncompliance. Basic education requirements include minimum program course offerings and hours, basic skills and work skills activities, classroom teacher contact hours, appropriate student-teacher ratios, compliance with the 180-day minimum school year, certificated staff with current and valid certificates, and assignment of classroom teachers and educational associates.

Washington State School Directors Association

This is a self-governing, self-funded association of school board directors established by the legislature in 1947. All school directors are automatically members of the association. Its twofold purpose is to assist school directors in governing community schools and to strive to improve student learning.⁸

Educational Service Districts (ESDs)

Educational Service Districts (ESDs) are regional units created by statute evolved from county superintendents. There are currently nine ESDs in the state of Washington. Each is governed by a board, consisting of either seven or nine members, in which each member represents a sub-division (director district) of the district.⁹

The ESDs are to

- provide informational services to local school districts
- assist the Office of the Superintendent of Public Instruction in performance of its duties
- provide services to school districts to assure equal educational opportunities

The ESDs depend on the state, federal government, and local school districts for their funding. Their budgets are approved and monitored by the SPI. State aid is appropriated by the legislature to the SPI for allocation to the ESDs and federal aid is allocated directly to ESDs or through grants administered by the SPI.

Leadership team roles

School board

Governs
(Guides, directs)

Decides what

Requests information

Considers issues

Creates, reviews & adopts policy

Approves & reviews plans

Monitors progress

Contracts with personnel

Approves evaluation criteria & procedures

Approves and reviews budget

Represents public interests

Superintendent

Manages
(Administers, operates)

Decides how

Seeks & provides information

Provides recommendations

Recommends & carries out policy

Implements plans

Reports progress

Supervises hiring process & practices

Supervises and evaluates personnel

Formulates budget

Acts in public interest

Table SF-1. Source: Serving on Your Local School Board, Washington State School Directors' Association, p. 13

School Districts

Local school districts are the statutory delivery system of instructional programs for students. They are, by law, corporate bodies which possess all of the usual powers of a corporation for public purposes. There are currently 296 local school districts in Washington. Each consists of a board of directors (usually five) elected by the voters to serve four-year, staggered terms.

School district boards of directors are charged, by law, with:

“ . . . the final responsibility for the setting of policies ensuring quality in the content and extent of its educational program and that such provide students with the opportunity to achieve those skills which are generally recognized as requisite to learning,”¹⁰ enforcing “ . . . the rules and regulations prescribed by the Superintendent of Public Instruction and the State Board of Education

for the government of schools, pupils, and certificated employees,”¹¹ and ensuring “ . . . the optimum learning atmosphere of the classroom is maintained.”¹²

School districts are managed by a district superintendent responsible to the board of directors for carrying out district policy, administering the operation of the district and schools, supervising district personnel, and advising the board of directors on all educational matters for the welfare and interest of students.

The school boards are governing bodies. Their function is not to operate the school district, but to see that it is run effectively. The board’s focus is determining what the district should accomplish and developing policies to carry out these goals.

In addition to the board of directors and superintendent, school district personnel will include certificated administrative personnel (such as principals), certificated instructional personnel (teachers), educational staff associates (counselors, librarians, school nurses, psychologists, etc.), and classified personnel (clerks, custodians, bus drivers, and food service workers, etc.).

2001-03 operating budget: Public schools

(Dollars in Thousands)

	As posed by the legislature	
	GF-S	Total
OSPI & Statewide Programs	61,304	29
General Apportionment	7,512,176	7,512,176
Pupil Transportation	387,491	387,491
School Food Services	6,200	29
Special Education	839,908	1,000,000
Traffic Safety Education	6,183	6,183
Educational service Districts	9,536	9,536
Levy Equalization	284,644	284,644
Elementary/Secondary School Improv	0	284,644
Institutional Education	38,248	38,248
ED of Highly Capable Students	12,840	12,840
Student Achievement Program	0	39
Education Reform	72,245	72,245
Transitional Bilingual Instruction	88,215	88,215
Learning Assistance Program (LAP)	139,410	139,410
Block Grants	37,031	37,031
Better Schools Program	8,996	8,996
Compensation Adjustments	398,659	398,659
Common School Construction	0	19
Total Public Schools	9,903,086	11,512,176

Table SF-2. Source: State Summary, Senate Ways and Means Committee, June 2001

School financing

Court decisions

It is impossible to discuss school financing without noting the impact of voter initiatives and various court decisions. Three court decisions have forced significant changes in the funding formulas of K-12 education in Washington state. These are known as the Doran Decisions after Thurston County Superior Court Justice Robert Doran, who issued the judgments.

Doran I

In 1975-76, the Seattle school district, frustrated after the defeat of two special levies, sued the state claiming it had not met its constitutional duty to make ample provision for education. The Thurston County Superior Court agreed and, in 1977, issued a declaratory judgment by Judge Doran, later known

as the Doran Decision I.¹³ It found that:

- State funding was insufficient to fund a basic program of education
- The legislature must define and fully fund a program of basic education

In 1978, the Washington State Supreme Court upheld Judge Doran's decision by a 6-3 margin.¹⁴

The result was the adoption by the legislature of the Basic Education Act of 1977 (since amended by later legislatures). The Act defined basic education, established a revised funding formula, significantly increased state funding, and limited the amount and purpose of special levies. It described the content of educational programs school districts must provide to satisfy these goals and set a formula in place for funding basic education based on ratios of district employees per student rather than dollars per student.

Doran II

In 1983, in response to a petition from several school districts, Judge Doran rendered a decision that included in the state's constitutional duty to fund basic education special-education programs for handicapped children, transition bilingual education, and remediation assistance.¹⁵ The judge ruled that the state was also required to fund transportation for handicapped children who need help traveling to and from school or those living too far from school, whether handicapped or not.

Judge Doran further held that once the legislature decided how many dollars were required to fully fund basic education, it could not later provide less than that amount.

Doran III

Again in 1988 Superior Court Justice Doran addressed the state's formula for funding special-education.¹⁶ He affirmed the formula and the formula approach to funding and identified the need for a "safety net" to address any demonstrated under-funding of special education within a school district. The decision did not require action by the legislature, but stated general guidelines to be used as a matter of law.

In turn, the legislature, in 1995, set a new formula in place for funding special education and included a "safety net" allocation within it.¹⁷

Basic Education Act – Goal

RCW 28A.150.210

The goal of the Basic Education Act for the schools of the state of Washington set forth in this chapter shall be to provide students with the opportunity to become responsible citizens, to contribute to their own economic well-being and to that of their families and communities, and to enjoy productive and satisfying lives. To these ends, the goals of each school district, with the involvement of parents and community members, shall be to provide opportunities for all students to develop the knowledge and skills essential to:

- (1) Read with comprehension, write with skill, and communicate effectively and responsibly in a variety of ways and settings;
- (2) Know and apply the core concepts and principles of mathematics; social, physical, and life sciences; civics and history; geography; arts; and health and fitness;
- (3) Think analytically, logically, and creatively, and to integrate experience and knowledge to form reasoned judgments and solve problems; and
- (4) Understand the importance of work and how performance, effort, and decisions directly affect future career and educational opportunities.

Initiatives enacted

Initiative 601 - General fund expenditure limit

This initiative appeared on the November 1993 ballot and was approved by Washington state voters.

It placed a limit (or cap) on the growth of expenditures from the state general fund (usually 55-60 percent of overall state spending). The limit or cap is equal to a three-year moving average of the rates of population growth and inflation.

I-601 relates to basic education funding in more than one way. The K-12 education programs receive monies from the state general fund. Any preset limit or cap on expenditures from the general fund will, as a result, probably also limit increases in the dollars which can go toward education. Secondly, funds in excess of the general fund limit go into the Emergency Reserve Fund (ERF), created by I-601, until the ERF exceeds five percent of the projected biennial revenues. Excess funds in the ERF then flow into the Education Construction Fund (ECF) to support school construction.

Initiative 695 - \$30 license tags and repeal of motor vehicle excise tax

This initiative appeared on the November 1999 ballot and was approved by 56 percent of Washington state voters. The goals of I-695 were to repeal the unpopular Motor Vehicle Excise Tax (MVET), replacing

it with a \$30 license tab fee, and to make any tax and fee increase by state and local government subject to voter approval. The MVET had represented the fourth largest component of the tax sources of revenue for the state (about seven percent of the general fund source revenues).

The Superior Court declared I-695 unconstitutional, but the legislature subsequently approved the \$30 tab fee.¹⁸

This reduction in revenue for the state general fund, in turn, resulted in fewer dollars available for all allocations, including education. Education expenditures usually represented about 45 percent of monies available in the state general fund.

Initiative 732 - School employee cost of living adjustment

This initiative appeared on the November 2000 ballot and was approved by 63 percent of Washington state voters. I-732 requires that all school employees receive an annual cost of living adjustment (COLA) in accordance with the Puget Sound (Seattle, Tacoma and Bremerton) consumer price index (CPI). The all-school employee category includes all K-12 school employees, community and technical college faculty, and technical college classified employees.

Initiative 728 - The student achievement act

This initiative appeared on the November 2000 ballot and was approved by nearly 72 percent of Washington state voters. It directs surplus state revenues to dedicated funds to provide additional resources for K-12

public schools in six areas, which are listed below. I-728 avoids the I-601 spending limitations by establishing a new dedicated fund, the Student Achievement Fund (SAF), which will receive most of I-728 revenues and will pay for the expanded programs described in the initiative. In effect, I-728 is an “end run” around the expenditure limit.

The SAF money will be distributed to public school districts based on enrollment, and will provide funding to:

- reduce class sizes in K-4
- make selected class size reductions in grades 5-12
- provide extended learning for students in K-12.
- provide additional professional development for educators
- provide early assistance for children who need pre-kindergarten support
- provide improvements or additions to school facilities that are directly related to class size reductions and extended learning opportunities

Although the initiative identifies six major goals, local communities will determine just how the money is spent. Essentially, I-728 amounts to a sizable discretionary grant. Time will tell whether the funds are spent as advertised to the voters and to educators.

State revenues: Where does the money come from?

The finances used to run school districts comes from three primary sources: state, federal and local allocations. Almost half the state’s general fund is spent on public schools. In the 1999-2000 biennium, 72.58 percent of school district general fund revenues came from the state government. See *Table SF-3*. Taxes are the major sources of state general fund revenues; chiefly sales tax, occupation (B & O) tax, and property tax. With the original passage of I-601 the motor vehicle excise taxes are no longer a general fund tax source.

A school district’s funds are divided and described as follows:

- **General fund** – Accounts for all financial resources of the district except those required by law or financial management purposes to be in another fund.

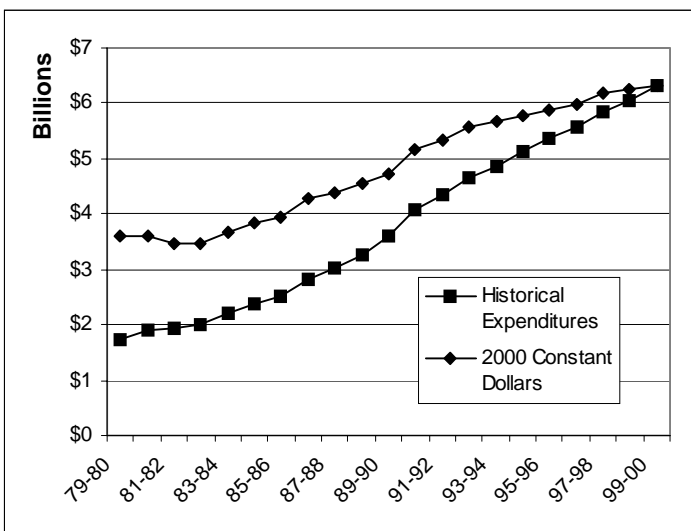


Figure SF-1: Historical expenditures on public schools. Source: Organization and Financing of Washington Schools, OSPI, p. 119

- **Capital projects fund** – Accounts for the costs of constructing or remodeling school buildings or acquiring property. Bond proceeds for construction or remodeling are deposited in this fund.
- **Transportation vehicle fund** – Accounts for the purchase, major repair, and rebuilding of pupil transportation vehicles.
- **Debt service fund** – Accounts which accumulate resources for the payment of long term debt principal and interest. Property taxes levied for this purpose are deposited in this fund.
- **Associated student body fund** – Accounts for the activities of the associated student body. Revenue from fund raising activities is used for sports, clubs, or other student activities.

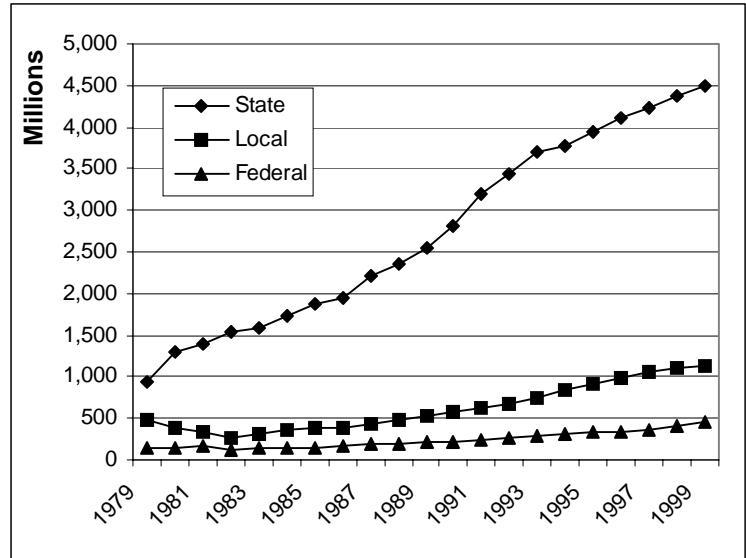


Figure SF-2: Major sources of general fund revenue. Source: 1999 Data Book, Office of Financial Management, p. 88.

The amount of money each district receives is determined by the use of various formulas, but the major funding factors controlling school district allocations for basic education are the number of students and district employees, and employee salaries (with average experience and education of the teaching staff being the driver).

State funding formulas are applied to the number of students in each grade level to determine how much money the state will provide to the district to support basic education programs. Most of this amount is used for teacher salaries and benefits. The number of students in a classroom, the student-teacher ratio, and the state salary schedule fixes the funding that the district will receive for teachers salaries. In actual practice, district-level collective bargaining may cause a difference in the rates of teacher and staff pay compared to the legislatively fixed schedule. As a result of the passage of I-732 in November 2000, districts will receive funding

to pay most of its employees an additional 3.7% effective on September 1, 2001.

Additionally, school districts also receive state revenues for funding specific programs, such as handicapped education, the highly capable (gifted) student program, pupil transportation, the learning assistance program, bilingual education, block grants, property tax levy equalization and school construction.

The formulas adjust for districts with small numbers of enrolled students, districts with a small number of high schools, secondary vocational and skills centers, large enrollment increases in a given month, private school and summer enrollments, and home-based student services. Running Start students enrolled in a community or technical college are reported and funded separately.

Supplies, equipment, utilities, and other non-people costs are referred to as “non-employee related costs” (NERCs). The state allocates an amount, set by the legislature, for each teacher, administrator, or state certified district employee. The state money is given to the districts in monthly payments, which vary somewhat month-to-month.

Other state-funded programs include:

- Special Education and Safety Net
- State Institutions Educational Programs
- Learning Assistance Programs
- Better Schools
- Transitional Bilingual Programs

State	72.58%
Local	18.93%
Federal	7.71%
Other	0.78%

Table SF-3. Source: School Financial Summary, OSPI

- Student Achievement Funds (I-728 based)
- Traffic Safety Education
- Highly Capable Students Programs
- Local Education Enhancement Programs
- Day Care
- School Food Service
- Pupil Transportation Services

Federal revenues

In the 1998-1999 school year, almost eight percent of the school districts general fund (maintenance and operations) came from federal sources. See *Table SF-3*. These funds were for programs like:

- The Improving America's Schools Act (ISA)
- School food services (lunch and snacks)
- Special Education, supplemental
- Day care
- Head Start
- Indian Education programs
- Bilingual programs
- Eisenhower Professional Development
- Vocational Education
- Skills Centers
- Youth training programs

- The Technology Literacy Challenge
- Other special purpose grants

Districts also receive federal funds for reimbursement of losses due to reduced property revenues and the increased cost of educational programs created by military bases and Indian reservations. This is known as "federal impact aid."

Local revenues

Local revenue sources made up nearly 19 percent of the total school district general fund revenues for the 1998-99 school fiscal year. See *Table SF-3*.

The state constitution gives school districts the authority to levy local property taxes with the approval of the voters in a district. Such local levies are often called "excess levies" or "special levies" because they are in excess of the one percent statutory limit on property tax and because they require voter approval.¹⁹

These levies may fund general maintenance and operations needs, capital needs, or be used to redeem bond principal and interest. School districts may issue bonds, given the approval of 60 percent of the voters, up to a statutory limit of 5 percent of assessed values. The bonds are amortized over a number of years, authorized at the

time the bond issue is approved. Sometimes bond funds are not immediately needed and are temporarily invested. The resulting interest is a minor source of local revenue for the district.

Reliance on levies declined and then slowly increased following the 1977 Doran Decision and the resulting passage of the Basic Education Act of 1977. These actions required the state to fully fund basic education. Prior to 1977, maintenance and operations levies

2001-02 K-12 Salary Allocation Table for Certificated Ins

Years of Service	BA	BA+ 15	BA+ 30	BA+ 45	BA+ 90	BA+ 135	
0	27,467	28,209	28,977	29,746	32,219	33,811	3
1	27,836	28,588	29,366	30,171	32,668	34,252	3
2	28,464	29,231	30,025	30,900	33,414	35,030	3
3	29,401	30,192	31,009	31,931	34,490	36,177	3
4	30,063	30,896	31,727	32,689	35,290	37,007	3
5	30,750	31,595	32,443	33,468	36,085	37,853	3
6	31,147	31,974	32,850	33,928	36,531	38,308	3
7	32,164	33,010	33,909	35,055	37,724	39,569	3
8	33,195	34,088	35,008	36,248	38,954	40,867	3
9		35,205	36,169	37,455	40,223	42,201	4
10			37,344	38,724	41,529	43,572	4
11				40,029	42,895	44,979	4
12				41,293	44,298	46,446	4
13					45,736	47,947	4
14					47,181	49,505	4
15					48,408	50,792	4
16 or more					49,376	51,808	4

Table SF-4. Source: <http://www.k12.wa.us/safs/PUB/PER/salsch.asp>

made up as much as 30 percent of district general fund revenues.

Inter-district transfers are made from non-high school districts (districts without high schools make payments to neighboring districts for a portion of the costs of educating non-high district residents). This mechanism protects taxpayers in districts with high schools from subsidizing the education of students residing in non-high school districts.

Other local sources of revenue include:

- payments for inter-district cooperative programs
- student fees and tuition
- investment earnings
- grants and gifts
- donations
- lunch reimbursement
- sales of materials
- fines
- insurance recovery monies

School district budgets

Writing the budget

The school board must adopt its budget prior to the beginning of the school year (September 1 to August 31 is the fiscal year). By law, the school district budget must be prepared by July 10.

The Washington State School Directors Association publishes excellent information regarding the school budget process, so only the basics are described in this document (www.wssda.org).

However, from years of experience analyzing numerous school budgets, we issue a strong challenge and caution: Most school board members neither understand nor investigate basic assumptions and financial trend data as it is presented to them by the district staff. For some reason, normally intelligent and frugal individuals have difficulty applying the same sensibilities to a school budget as they do their household or business budgets. This is not to suggest that school directors should challenge every expenditure or micromanage every administrative decision. It underscores the reality that school directors must have the unvarnished and unaltered facts before they can be expected to make wise decisions.

Furthermore, school directors should feel free to explore opportunities outside the existing public education structure to deliver services in more cost effective,

efficient ways. The reason public schools exist is to provide the opportunity for an excellent education to all students residing in our state's borders. Public schools do not exist to provide guaranteed jobs for grown-ups.

Before writing the budget the district must make some assumptions and projections about the coming year(s). The assumptions are made for:

- educational programs and goals – usually part of the district long range plans
- enrollment, buildings needed, and courses to be offered
- staffing, class room support, and administrative staff
- salary negotiations, leaves, vacation, sick leaves, and employee benefits
- inflation over the budget period
- equipment purchases and replacements
- pupil transportation – both mandatory and other
- fund balances
- extra-curricular activities

With these assumptions and projections in hand, the district creates the budget methodically filling-in the specific details on form F-195, the official school district budget document supplied by the OSPI. A completed F-195 form will typically exceed 120 pages.

The budget will contain estimates of (a) revenues and expenditures for each fund for the budgeted year, for the current fiscal year, and actual revenues and expenditures for the last completed fiscal year; (b) beginning and ending fund balances, and (c) any self-balancing equity transfers, where applicable.

In addition to a completed F-195, the district must estimate state revenues using form F-203. All revenues are listed on F-203 and must be in agreement with the data used on the budget form (F-195).

Drafting successful budgets

Advance planning is critical to draft or approve an accurate and useful budget.

- Develop a calendar for budget completion and work backwards assigning tasks, responsibilities and interim deadlines as necessary
- Involve the administration and appropriate staff
- Make certain board members understand and agree with the district's strategic plan and long-range goals, since budget priorities are based on these decisions

General fund expenditures by program
School Year 1999-2000

Direct Program	Dollars	Percent	\$
Basic Instruction	2,841,095,307	44.9	
Special Education	581,393,637	9.2	
Vocational / Skills Center	241,611,769	3.8	
Pupil Transportation	252,508,754	4.0	
Food services	213,481,314	3.4	
Compensatory Education	321,905,642	5.1	
Remediation	108,843,054	1.8	
Learning Assistance	72,573,208	1.1	
Bilingual Education	52,356,305	0.8	
Special and Pilot Institutions	33,362,004	0.5	
All Other	660,277	0.0	
	54,110,794	0.9	
Other Instruction	167,415,137	2.6	
Local Ed. Prog. Enhance.	37,064,488	0.6	
Traffic Safety Education	15,241,895	0.2	
Highly Capable	12,046,097	0.2	
All Other	103,062,657	1.6	
Community Service	32,507,497	0.5	
Other Support Services	1,680,570,556	26.5	
Total Expenditures	\$6,332,489,613	100.0	

Table SF-5. Source: School District & ESD Financial Reporting Summary 1999-2000, OSPI, Section One.

- Gather accurate trend/historical data
- Review significant variables from the previous and current budget
- Gather and review financial reports and forecasts
- Involve the public in meaningful ways

When are school district budgets available to the public?

School district budgets for first-class districts are required, by law to be available to the public by July 20 (July 10 for second-class school districts) for the fiscal year beginning on the following September 1.²⁰

Upon completion of their budgets, every school district must publish a notice stating that the district has completed the budget, placed it on file in the school

district administration office, and that a copy will be furnished to *any person* who calls upon the district for it. The district is required to provide a sufficient number of copies of the budget to meet reasonable demands of the public.²¹

In addition, every school district must publish a notice stating that the board of directors will meet for the purpose of fixing and adopting the budget for the coming fiscal year. The notice must tell the time and place of the meeting, which must occur no later than August 31 for first-class school districts (August 1 for second-class school districts). Such notice must be published at least once a week for two consecutive weeks in a newspaper of general circulation in the district. At the board meeting, any person may appear and be heard for or against any part of the budget.

Similarly, emergency or additional appropriation resolutions must be voted upon at public meetings with notice given in the manner described above. Any person may appear at the meeting at which the appropriate resolution is to be voted on and be heard for or against the adoption of the resolution.

Also for the Student Achievement Fund (SAF) monies, each district has the authority to decide the best use of the funds to assist students in meeting and exceeding the new education standards. Annually, on or before May 1, the school district shall meet for a public hearing on the proposed use of those funds to improve student achievement for the coming year. Any person may appear or by written submission have the opportunity to comment on the proposed plan for the use of the funds.²²

Many school districts now have web sites on which board meetings, agendas, and meeting minutes are published.

When a district completes its budget, it must forward it for preliminary review and edit by the educational service district (ESD).²³ When the budget passes

ESD review, the budget documents are then submitted to the OSPI. The OSPI performs a final review and, if approved, a signed budget confirmation page is sent back to the school district.

Reading a school district budget

The current detailed budgets for each school district in Washington are available on the website of the Office of the Superintendent of Public Instruction (www.K12.wa.us). Printed copies of the budget of each individual district are available at the business office of each school district.

The OSPI web site includes a financial profile for each district. This page displays the FTE enrollment, the staff count (certificated instructional, certificated administrative, and classified staff), revenues (state, federal, local levy, and other), expenditures (broken down by administration, instruction, facilities, pupil transportation, food service and other), the dollars of revenue and expenditures per student, and fund balances. Actual numbers are shown for the last two school years with the budgeted numbers for the last completed school year and the budget numbers for the current year.

The school district budget gives information on school expenditures—where the money goes—with four classifications. The classification of expenditures are by fund, program, activity, and object.

Expenditures by program represent major operational components of the school district. These expenditures describe the categories that are directly involved with the instruction and education of students. Examples of program categories are basic instruction, special education, vocational/skills centers, pupil transportation, food services, compensatory education, other instruction (like local educational program enhancement), and community services. See *Table SF-5*.

Expenditures by object represent the goods and services acquired by a school district to accomplish the objectives of a given program and activity. Examples of these object expenditures categories are salaries and ben-

General fund expenditures by object School Year 1999-2000

Object of Expenditure	Dollars	Percent	\$ / S
Salaries & Benefits	5,213,732,919	82.3	
Certificated	2,997,610,536	47.3	
Classified	1,093,422,961	17.3	
Benefits	1,122,699,422	17.7	
Purchased Services	597,743,983	9.4	
Central/Building/Admin.	58,681,192	0.8	
Teaching/Teaching Support	188,407,689	2.9	
Food Services	17,755,742	0.3	
Utilities	153,308,636	2.4	
Insurance	27,430,211	0.5	
Information Systems	24,565,293	0.5	
Pupil Transportation	61,793,322	1.0	
Other	65,801,898	1.0	
Supplies & Materials	405,739,093	6.5	
Capital Outlay	94,890,798	1.5	
Travel	20,382,820	0.3	
Total Expenditures	\$6,332,489,613	100	\$

Table SF-6. Source: School District & ESD Financial Reporting Summary 1999-2000, OSPI, Section One.

efits (certificated salaries, classified salaries, and benefits), purchased services (such as central administration, teaching/teaching support, utilities, insurance, supplies and materials, capital outlays, and travel). See *Table SF-6*.

Expenditures by activity represent functions of school district operations that may cross program lines. The activities classification describes function areas that are directly involved in the object of the programs. Examples of activity categories are administration (and supervision), instruction, facilities, transportation and food service. See *Table SF-7*.

The formal school budget gives little information on such items as changes in demographics, student successes and needs, programming successes and problems, community concerns, or details of special situations or conditions. Grasping these aspects of a school district requires a thorough understanding of the rationale behind the decisions that led to the budget document. This includes the district goals and plans and the strategies for achieving them. Becoming intimately involved in

General fund expenditures by activity
School Year 1999-2000

Activity	Dollars	Percent
Administration	831,812,341	13.0
Principals' Office	392,546,926	6.2
Instruction - Supervision	170,725,127	2.7
Superintendents' Office	67,197,298	1.0
Business office	77,085,279	1.2
Human resources	39,915,256	0.6
Pupil Trans. - Supervision	25,089,800	0.4
Board of Directors	24,060,620	0.4
Facilities - Supervision	20,544,548	0.3
Food Service - Supervision	14,647,487	0.2
Instruction	4,388,956,209	69.4
Teaching	3,718,622,146	58.8
Guidance & Counseling	163,903,139	2.6
Learning Resources	136,876,830	2.2
Extracurricular	121,119,594	1.9
Pupil Management & Safety	46,877,261	0.7
Health Related	179,407,431	2.7
Payments to Other Districts	22,149,808	0.4
School Facilities	558,987,226	8.9
Operation of Buildings	220,070,428	3.5
Utilities	156,841,237	2.5
Maintenance	137,426,830	2.2
Grounds Maintenance	35,835,478	0.6
Plant Security	8,813,253	0.1
Pupil Transportation	226,160,076	3.6

Table SF-7. Source: School District & ESD Financial Reporting Summary 1999-2000, OSPI, Section One.

the budgeting process and participating in the discussions and negotiations from which the budget is shaped during the preceding year is the only reasonable path.

One other approach to examining a district's finances is to compare the budgets of several other districts of similar size and regional characteristics for the same fiscal year. Comparing districts of similar regional characteristics means those with similar tax bases, personal income levels, numbers of English speaking and special needs populations, and cultural preferences. Comparisons to districts with significant differences in services provided, those with vastly different levy and bond issue successes, or those experiencing recent annexations or consolidations should be avoided.

Comparing data from districts of the same approximate size will tend to eliminate trends that arise from scaling factors alone. Examining how similarly sized districts fund their educational operation and how and where they spend their dollars can point to potential problem areas or highlight facets of district operation that require further study.

Another approach is district trend analysis. This involves analyzing the trends in the operation of a single district by examining patterns of revenues, expenditures, staffing, and program emphasis. Asking questions which highlight changes or continuing trend directions in one or more areas may point to aspects of district operation that need more analysis—questions like the following:

- Is a significant increase or decrease in expenditures being proposed?
- What seems to be the trend in staffing levels and experience relative to changes in student populations or demographics?
- Are the principal goals outlined in the budget being accomplished as planned and with the expected outcomes?
- Do past years' budgets accurately reflect the actual spending?
- Have levels of funding kept pace with mandated special service programs like handicapped or non-English speaking student programs?
- Are trends of revenue, spending, staffing, or programming reflected in the quality of output—in for example graduation rates, college placements, or test scores?

During the budget year, financial statements and reports are prepared by the district on a monthly basis. A monthly budget status report is prepared for each district fund, summarizing the most current approved budget amounts and the fund balance at the beginning and end of the period under analysis. All monthly reports are made available by the administration of the district to each member of the district board of directors and to any person or organization upon request, pursuant to the policies of the board of directors.²⁴

A board member or interested person can monitor the administration of the budget by asking questions such as:

- How does actual enrollment compare to the budgeted number?
- How does actual staffing compare to the budgeted amount?
- Do the actual fund balances compare to the budgeted numbers?
- Do year-to-date revenues and expenditures seem reasonable and are they consistent with historical patterns?
- Does there appear to be sufficiently budgeted amounts for the individual programs?
- Are there significant changes in enrollment, levy revenues, payments to vendors, borrowing, or cash balances?

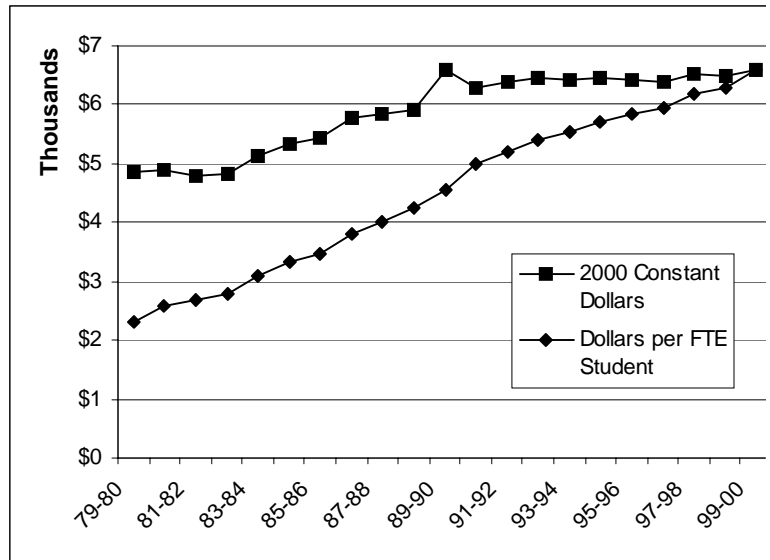


Chart SF-3: Dollars per FTE student. Source: Organization and Financing of Washington Schools, OSPI, 119

Conclusion

Washington state has spent an ever-increasing amount of dollars on its K-12 education system. Over the last 20 years, from 1980 to the year 2000, this amount of money has increased by a factor a little over 3.5 fold. The increase is greater than expected simply due to inflation. In constant year 2000 dollars the amount spent in year 1980 nearly doubled by year 2000.

In enrollment terms, the number of students served has also increased from approximately 750,000 in 1980 to just under 1,000,000 students in year 2000. This increase is approximately one-third more students served than 20 years ago and significantly less than the two-fold increase in constant dollars spent in support funding.

The dollars spent each year per FTE student has increased by a factor of about 3 during the 20 years from 1980. Summarizing expenditure curves, the number of students served has increased by about one-third and the dollars expended has increased by about the same factor in year 2000 constant dollars.

Because resources for K-12 education will always be finite, and because demand from the public and various special interest groups for broader services increases, school directors must look for ways to reduce expenditures or to get the biggest bang for every buck spent. This means looking for solutions wherever they can be found, and sometimes this is outside the traditional school building. The “make or buy” discussion is not new, yet it is foreign in most public education circles. It

is not possible or even sensible for public education to “make” every service it decides to provide. Oftentimes the service can be “bought” on the free market for better value.

Budgets almost always drive policy—a fact too often overlooked. To be sure, managing large budgets within the constraints of the law, collectively bargained contracts and immovable predetermined expectations is difficult. But to restate an earlier theme, public schools exist for students, not for adults. Nothing is gained for students, taxpayers or society at large if school directors are unable to challenge assumptions and outcomes, whether it is because accurate information is unavailable, or because they are intimidated by staff. On the other hand, continual carping by school directors who are unwilling to help craft alternatives and solutions is demoralizing to the administration, teachers and staff.

Recommendations

- *School directors must take seriously their obligation to understand the “innards” of the budget and the process used to adopt it.* All budget assumptions should be reviewed against facts and historical trends to determine soundness.
- *Directors should determine the elements of revenue and expenditures that they can control* at their statutorily delegated level of authority.
- *Make a clear-headed evaluation to determine whether the greatest value is being achieved* for the amount of money spent.
- *Address the “make or buy” question.* It is insensible to assume that being responsible to “provide for” an educational outcome means that every district must create the product and deliver it. For example, many services for students receiving learning assistance can be provided outside the traditional public school institution.
- *Build a reasonable reserve.* Expect the unexpected.
- *Review contracts for opportunities to make changes in service delivery* whenever it can be determined that efficiency, effectiveness and cost-savings is the likely result.
- *Ask lawmakers* to 1) *further deregulate public schools*, and 2) *allow more of the dollars to follow the child* to the public school of his/her parents’ choice.

Endnotes

1. Wash. Constitution, Art. IX, §1, 2.
2. RCW 28A.150.210
3. Wash. Constitution, Art. III, §22.
4. RCW 28A.300.040
5. RCW 28A.150.210
6. The rules adopted by the SBE are found in Title 180 of the WAC and the administrative rules adopted by the SPI are found in Title 392 of the WAC.
7. RCW 28A.305.130
8. RCW 28A.345
9. RCW 28A.310.010
10. RCW 28A.150.230
11. RCW 28A.600.010
12. RCW 28A.600.020
13. *Seattle School District v. State*, No. 53950, (Thurston Co. Sup. Ct. March, 1977); aff’d as modified, 90 Wn.2d 476 (1978).
14. *Seattle School District v. State*, 90 Wn.2d 476 (1978).
15. *Seattle School District v. State*, No. 81-2-1713-1 (Thurston Co. Sup. Ct., April, 1983).
16. *Washington State Special Education Coalition vs. State of Washington, et al.*, No. 85-2-00543-8 (Thurston Co. Sup. Ct., February, 1988), declaratory judgment.
17. 1995 Wash. Laws, Ch. 77, §6.
18. *Amalgamated Transit Union Local 587 et al. v. State of Washington*, 142 Wn.2d 183 (2000); License Tab Fees, 2000 Wash. Laws, 1st Special Session, Ch. 1.
19. Wash. Constitution, Art. VII, §2.
20. RCW 28A.505.040
21. RCW 28A.505.050
22. Initiative 728, School Class Sizes, 2001 Wash. Laws, Ch. 3.
23. RCW 28A.505.060
24. WAC 392-123-110

K-12 education statistics

Year	FTE Enrollment		\$/Student		Classroom Teachers
81-82	725,856		\$2,689		35,004
82-83	714,975	-1.5%	\$2,795	3.9%	34,117
83-84	714,789	0.0%	\$3,097	10.8%	34,890
84-85	718,712	0.5%	\$3,333	7.6%	35,727
85-86	726,411	1.1%	\$3,463	3.9%	36,200
86-87	740,958	2.0%	\$3,805	9.9%	37,127
87-88	753,256	1.7%	\$4,008	5.3%	37,949
88-89	768,545	2.0%	\$4,259	6.3%	38,818
89-90	788,961	2.7%	\$4,556	7.0%	40,337
90-91	818,656	3.8%	\$4,984	9.4%	41,919
91-92	836,827	2.2%	\$5,196	4.3%	42,924
92-93	860,764	2.9%	\$5,417	4.3%	44,329
93-94	880,700	2.3%	\$5,532	2.1%	45,456
94-95	899,203	2.1%	\$5,702	3.1%	46,347
95-96	917,652	2.1%	\$5,845	2.5%	46,900
96-97	936,395	2.0%	\$5,953	1.8%	48,213
97-98	949,349	1.4%	\$6,169	3.6%	49,015
98-99	959,541	1.1%	\$6,292	2.0%	49,598
99-00	961,449	0.2%	\$6,586	4.7%	50,239
81-00	32.5%		144.9%		43.5%

Table SF-8. Source: Superintendent of Public Instruction

FTE Enrollment includes preschool special education, vocational technical institutes through 1990-91 and state institutions. Dollar per student expenditures include in addition to K-12 education and support programs, state institutions, preschool special education, summer school, community services, adult education, youth training programs, day care programs and vocational technical institutions through 1990-91.