**Best Practices in School Budgeting**

**1A – Develop Principles and Policies to Guide the Budget Process**

Plan and Prepare Phase

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**SUMMARY**

**Key Points**

- Budget principles are general guidelines that a district intends to honor through its budget process. Principles are not technical and can be understood and appreciated by all members of the organization and the public. By adopting budget principles, a district’s decision makers can create overarching values to help frame and guide budget deliberations. Examples of principles a district might adopt include: “Goals for Student Achievement Should Drive the Budget Process” or “Base Resourcing Decisions on the Total Value Created for Children.” This Best Practice describes other principles that districts might consider as well as more specific elements behind each principle.

- Budget policies clarify a district’s intention on how it will manage its resources by identifying acceptable and unacceptable course of financial action, establishing parameters in which the district can operate, and providing a standard against which the district’s fiscal performance can be judged. Budget policies are often technical in nature, and thus require some budgeting acumen to develop and implement. A district is recommended to have policies related to its general fund reserve, response to financial emergency, long-term forecasting, asset maintenance and replacement, budgeting and management of categorical funds, budgeting for staff compensation, review and sunsetting of programs, definition of a “balanced budget,” year-end savings, and funding for new programs.

**Related Award Program Criteria**

- Criterion 1.A.1: Budget Principles. A set of principles should be formally adopted by the board and should be submitted as Supplementary Materials. The principles should address, at a minimum, the concepts outlined in the Best Practice.

- Criterion 1.A.2: Policies (Mandatory). The board should formally adopt a set of budget policies that should be submitted as Supplementary Materials and that should be summarized in the Budget Document. At a minimum, the policies should address the policy topics recommended by the Best Practice.

**Introduction**

Developing a budget that optimally aligns resources with student achievement will, for many school districts, entail making significant changes in how resources are spent. Therefore, many long-standing assumptions about how to best develop a budget may need to be changed. A set of principles and policies, agreed to by the school board and the staff before the budgeting process begins, can provide a touchstone for what matters most in the budgeting process – creating the most student learning with the money available.

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

This Best Practice document describes:

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

I. Principles to Consider

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

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

Goals for Student Achievement Should Drive the Budget Process
Clear goals for student achievement should guide how resources are allocated. Tracking progress or making tough budget decisions to prioritize programs and strategies is impossible without specific goals.

Decisions Should be Driven by Data
Making decisions that will impact the future of children can raise emotions, leading to “gut” decisions – decisions that don’t optimize student achievement for the available money. Here are examples of more specific elements of this principle that a district should consider:

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

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

- Prioritize strategies and programs with proven cost-effectiveness. Strategies and programs that have proven to produce larger gains in student learning relative to their cost should be given priority for funding.
• **Make student-centered decisions.** Budget decisions should be based on what is best for children, not adults. In many cases, there is pressure to develop a budget that puts the interests of adult stakeholders above the interests of students. That priority should be reversed.

• **Be flexible about class sizes.** Decisions about class size are one of the biggest draws on the educational budget because of the staffing implications. Research has not shown a clear, general linkage between class size and student performance (except for modest impacts in grades K-3). Using scarce resources to make small reductions in class sizes is expensive and may not produce much value.

• **Ensure there are sufficient resources for “Tier 1” support strategies.** Under RTI, Tier 1 comprises the core curriculum, with instruction and within class differentiation targeting all students. Tier 1 includes both core instruction and ongoing, comprehensive, and systemic professional development, as well as school-based instructional coaches who work with collaborative teacher work teams to improve instructional practice through the use of student data.

• **Ensure there are some resources for the most impactful “Tier 2” strategies and ESL/ELL children.** Under RTI, Tier 2 comprises supplementary interventions for students who do not perform within the expected parameters through Tier 1 instruction. Tier 2 covers all students, but most importantly the extra help or interventions made available by federal Title I and state compensatory education programs. English as a Second Language/English Language Learners (ESL / ELL) also require additional support.

**Critically Re-Examine Patterns of Spending**

PK-12 budget processes are typically “incremental,” where last year’s spending becomes the basis for the next year’s budget, with incremental changes made around the margin. However, past patterns of spending may no longer be affordable or even relevant given changing needs of the community and student body. Hence, the budget process should encourage review of past spending decisions and critically change, where necessary. Another specific principle to consider includes:

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

**Ensure Equality of Opportunity for Students**

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

**Take a Long-Term Perspective**

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

**Be Transparent**

Effective budgeting requires valid information about the true costs of serving students and the outcomes produced for students. More specific principles to consider include:
• **Make performance data readily available.** The budget process should be informed by valid and reliable data on fiscal and academic performance.

• **Consider all costs in evaluating the cost of educating students.** A full cost accounting approach should be taken in evaluating the classroom and non-classroom costs of educating students. In both setting and reducing budgets, the full cost of educating students should be considered.  

• **Use a consolidated budget.** The budgeting process should consider all available funds. The process also should acknowledge constraints on categorical spending, but should consider all available monies to make the most impact with the available dollars.

• **Be clear on what actions are being funded.** Budgets are sometimes solely focused on what inputs are being funded – salaries, benefits, commodities, etc. The budget should make it clear what actions are being funded to help the district to reach its student achievement goals - not just line items and broad expenditure categories.

**II. Policies to Consider**

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

**Recommendation.** The GFOA recommends that districts develop and adopt policies in the areas described below. A district is encouraged to consider other policies that could support its budgeting and financial planning as well, but the policies described below are those that should be developed as a foundation.

**General Fund Reserve**

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

With respect to the target level of fund balance to maintain, the adequacy of unrestricted fund balance in the general fund should be assessed based upon a district’s own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that school districts, maintain unrestricted fund balance in their general fund of no less than 10 percent of regular general fund operating revenues or regular general fund operating expenditures and operating transfers out (if applicable). The choice of revenues or expenditures as a basis for the reserve amount may be dictated by what is more predictable in a district’s particular circumstances. In determining the right level of unrestricted fund balance for its precise circumstances, a district should analyze the risks that it faces and establish reserve levels commensurate with those risks.

**Definition of a Balanced Budget**

While state statutes will require school districts to adopt a balanced budget, the statutes are often vague such that a budget that is balanced by the definition of the statute may not be, in fact, sustainable over
time. For example, selling assets or using reserves may be considered acceptable means of balancing the budget, but is not sustainable on an ongoing basis. Therefore, school districts should adopt a policy with a more rigorous definition of a balanced budget. The GFOA uses the term “structurally balanced budget” to describe a budget where recurring revenues equal or exceed recurring expenditures, and recommends that governments adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget.\textsuperscript{15} The policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.

**Financial Emergency Policy**
School districts should adopt a policy that provides guidelines on how to respond to a financial crisis. The policy should address, at a minimum: the definition of a “financial emergency;” who invokes the policy when a crisis occurs; designating authority for managing the crisis; provide authorization to place a freeze on hiring and purchases and to use other retrenchment tactics; direct staff to develop monitoring and reporting tools to manage the crisis; direct staff to diagnose the reasons for the crisis and to present a financial recovery plan to the board; and, finally, direct staff to conduct a root cause analysis of the crisis and present the board with strategies to prevent a recurrence of the crisis.

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

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

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

**Budgeting for Staff Compensation**
The GFOA recommends that school districts adopt a policy to require budgeting the cost of positions by the full cost of the compensation for that position (salary plus benefits), rather than just salary costs. This provides a more accurate picture of the true cost of human resources and enables more informed decision making on how to provide services to children.
School districts often use a position’s average compensation costs across the entire district to budget that position’s cost at individual school sites. The drawback of this approach is that it obscures differences in teacher experience and/or effectiveness between school sites. Hence, the GFOA recommends that districts adopt a policy that requires the district to take steps to recognize these potential inequities either by budgeting according to actual salaries or by supplementing budget allocations based on average salary with statistics that describe the levels of teacher experience and/or effectiveness at each school site (e.g. average years of teacher experience).

Program Review and Sunset, Alternative Service Delivery
Districts should adopt a policy of regularly reviewing their programs/services with the objective of identifying programs/services that are not cost-effective and repurposing the funds. The policy should establish a minimum for how often such a review will be formally conducted. The GFOA recommends that a review should occur as part of a district’s budget process.

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

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

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

Endnotes
2 See Best Practice in School Budgeting, 2A – Develop Goals, for more information.
Budgeting Best Practices for School Districts

Plan and Prepare Phase

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4 Alan M. Blankstein designates “data-based decision making for continuous improvement” as one of his six principles that advance student achievement in highly effective schools. See Alan M. Blankstein, *Failure is Not an Option, 3rd* ed. (Thousand Oaks, CA: Corwin-Sage, 2013).

5 Response to intervention can be abbreviated “RTI” or “RtI,” both of which are sometimes taken to signify different approaches to response to intervention. GFOA does not endorse one version of response to intervention over the other and has just used “RTI” for convenience.


7 According to Odden and Picus in *School Finance*, “There is evidence that small classes, particularly in Grades K-3, can positively impact student learning..., but the evidence on small class size exists only for grades K-3. Moreover, class size needs to be reduced to about 15 to have that effect, and although the impact is statistically significant, it is relatively modest. More importantly, class size reduction is very expensive, and there is no research support for similarly small class sizes in grades 4-12.” The authors reference a number of studies, particularly the Tennessee STAR study, which was a large-scale, randomized experiment of class sizes of approximately 15 compared to a control group of classes with approximately 24 students in grades K-3.

8 Of course, districts will always be constrained by state class size mandates, unless they make strong arguments for waivers.

9 Marguerite Roza describes this as “accountability” and it is one of seven design elements she recommends as part of an ideal school financing system. See Marguerite Roza, *Educational Economics: Where Do School Funds Go?* (Washington, D.C.: The Urban Institute Press, 2010).

10 Equity with respect to school finance is a far-reaching topic. This Best Practice has limited the discussion to equity for children since children are the primary clientele of school districts. It has also limited the discussion to equity of opportunity (as opposed to outcomes, for example) because equity of opportunity is primarily a function of the amount and quality of the inputs into the educational process (e.g., money, teachers), which are issues particularly germane to budget deliberations. For a fuller discussion of equity issues in public education, see Robert Berne and Leanna Stiefel, “Concepts of School Finance Equity: 1970 to Present” in *Equity and Adequacy in Education Finance: Issues and Perspectives*, ed. Helen Ladd, Rosemary Chalk, and Janet Hansen (Washington, D.C.: National Academy Press, 1999).


12 Fully loaded costs should include, at a minimum, the cost of all fringe benefits (e.g., health insurance, pension, etc.) in addition to salary when considering the cost of personnel. A classic definition of “full costs” also includes other direct costs (e.g., material and equipment used by a teacher) and indirect costs, such as allocations for overhead services. However, simply using fully loaded personnel costs for budget decisions may represent a significant improvement in decision making. See Nathan Levenson, *Smarter Budgets, Smarter Schools* (Cambridge, MA: Harvard Education Press, 2012).

13 For examples and more practical detail, see Levenson, *Smarter Budgets, Smarter Schools*.

14 GFOA has published other resources that describe financial policies that are generally applicable to local governments. See for example: National Advisory Council on State and Local Budgeting