

Revenue Budget Development and Monitoring

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Our Agenda

- What makes a revenue budget development process successful?
- Top 10 revenue budget problems observed
- So You Want to Build the Revenue Budget - Sources of Information for revenue budgeting
- Revenue budget checklist
- Other
 - Questions

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Who and What We Are Speaking To

- **WHO:** The newer MASBO member or the person who has not previously had responsibility for the District's revenue budget – because there are a lot of new faces at MASBO
- **WHAT:** The budgeting of school district revenues – primarily geared at preparing for the fiscal 2007 revenue budget of the General Fund – not projecting or forecasting into the future although that is also important

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What makes a revenue budget development process successful?

- Starting the process early enough – **Budget Calendar**
- Having adequate time (and staff) to prepare properly
- Having access to good supporting data
- Developing good monitoring systems which alert you to potential problem areas
- Having more than one knowledgeable person around to perform “logic-checks” on financial assumptions
- Having a knowledgeable and supportive superintendent, school board and finance committee
- Having good “systems” in place to track
 - Enrollment – the most significant variable
 - Legislative changes – translating theoretical into the practical
 - Federal and state grants - where corresponding expenditures must be tracked
- Staying on top of current legislative initiatives and how they could impact your individual district
- Having a good working knowledge and understanding of state aid calculations (and federal program entitlements as well)

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3 Suggestions for Improving the Revenue Budgeting Process

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Assume that every time you prepare something that it's the last time you'll be doing it and that you want to show your replacement what you did.

Best example is "budget support" binder or directory on computer for both revenues and expenditures.

Top 10 Revenue Budget Problems

- 1 Too Many Eggs in One Basket
- 2 Based on Outdated / Inaccurate / Unrealistic assumptions
- 3 Lack of (or Insufficient) Coordination between Departments
- 4 Not Knowing What You Don't Know
- 5 Business Office Staff Cuts
- 6 Budget is not prepared (or communicated) timely enough
- 7 Understanding of the MARSS reporting system is insufficient
- 8 Lack of Involvement by those impacted
- 9 Inadequate (or inappropriate) level of information to board
- 10 Lack of long-range (2, 3 or 4 years) planning

Too Many Eggs in One Basket

- The accuracy of the revenue budget is too important to be entrusted to just one individual
- Key budget assumptions such as enrollment, interest, special education funding, levies, grants, etc. should be discussed by and derived from a committee process – there is safety in numbers
- The committee may or may not include citizen input beyond interested school board members
- Also consider having someone external to the District (such as an auditor) validate the key assumptions – if X, then Y

Budget is Based on Outdated/ Inaccurate/Unrealistic assumptions

- Ensure that current budget is updated and accurately reflecting reality before building the next year's budget
 - Enrollment
 - Revenue
 - Expenditures
 - Estimated ending fund balances
- Board to establish guidelines to be followed when building the budget
- Holes should not get "plugged" with interest, or special ed estimates or overly optimistic enrollment assumptions
- Extreme care should be exercised to avoid double-budgeting of state credits which are used to pay a portion of the levy

Lack of (Insufficient) Coordination Between Departments

- There is a significant impact on revenue based on the actions of the Special Education Department so this must be closely coordinated, same with the Food Service Department
- The Special Ed Dept isn't always focused on maximizing the revenue potential – so the Business Office must closely monitor (or take possession of) the EDRS reporting process, for example, to ensure that all revenue is captured
- The Food Service Dept isn't always as involved in the revenue aspect of running their program as they need to be
- In addition, other departments need to be held accountable for delivering timely and accurate information necessary for the Business Office – (federal program managers) – too often, already stretched thin Business Managers rescue others by doing their job for them

Not Knowing What You Don't Know

- For the new business manager or accountant, you often don't know what you don't know, therefore, you are having to react to things that come up on nearly a daily basis
- Develop a calendar of events so that necessary activities can have time scheduled and expectations can be developed for those supplying information to you – the MDE Data Acquisition Calendar is one starting point
- Obtain a deeper understanding of key processes that cause the greatest difficulty – such as enrollments, tax shift accounting, special education funding, etc. – if new to school finance, read the Guides that are available

Business Office Staff Cuts

- The desire to “share the pain” with the Business Office is shortsighted - being penny wise and pound foolish is resulting in too much detail work being done at an inappropriate level to the point where higher level analysis and analytical work isn't getting done
- Make the case for adequate and proper staffing in the Business Office (and use your auditor to support you)
- In case after case we've worked with, the best recovery plan involving statutory operating debt (SOD) was the addition of appropriate staff to the Business Office - so that information (and funding) didn't continue to slip through the cracks
- Be open to using technology to your advantage (e.g. going paperless can improve efficiency)

Budget is Not Prepared (or Communicated) Timely Enough

- Districts need to have a published, board-approved timeline which lays the groundwork for communication, expectations and results
- Too often, late decisions on funding drive the budget timetable and poor decision-making results
- Same with mid-year budget adjustments

Understanding of MARSS (Student Enrollment) is Insufficient

- Since enrollment is the #1 variable in determining the amount of revenue to budget, more effort needs to be put into understanding how to access information which will allow for a more accurate prediction of final enrollments
- Equally important is closely monitoring enrollments on a monthly basis to ensure that there are no year-end surprises
- Dissect the year-end MARSS turnaround report from MDE and develop an “apples to apples” comparison as best you can on a monthly basis to the students who actually generate aid for your District – keep in mind tuition students (both in and out), keep in mind the change in Extended Time (learning year pupil units), keep in mind alternative programs

Lack of Involvement by Those Impacted by Revenue Budgets

- In order to have accountability, must involve those who have budget oversight responsibility (principals, dept. heads, etc.)
- Department heads given budget versus providing the budget (Food service, Community Ed, Transportation, Athletic Directors, etc.)

Inadequate Level of Information to the School Board

- Too much “trust” placed in the business manager - should use a “trust, but verify” approach
- Information summarized at total fund balance level with no perspective on individual details
- Training the board about school finance is an important aspect of budget development
- Remember that the School Board will readily forgive errors if 1) they are explainable (as in beyond anyone’s control), 2) they are based on variables that had been previously provided to them, 3) they are explained in a timely manner (do not wait until your audit report is presented)
- Your systems should be sufficient to shoot for a margin of error that is within 1% of either side of zero (doesn’t mean you’ll hit it but you’ll have a target)

Lack of long-range (2, 3 or 4 years) planning

- Important to have some methodology to anticipate future revenues and expenditures
- Several long-range projection models are available
 - Jim Sheehan (schoolfinances.com) version is fairly comprehensive
 - Others
 - LarsonAllen version was much more simplified but too difficult to maintain

Top Reasons the School Board Loses Confidence and Heads Roll

- Budget variances too significant (District often unexpectedly in Statutory Operating Debt) – public reaction forces board action
- Budget outcomes not communicated timely enough (if the first indication of ending fund balances is from the auditor—probably not timely enough)
- Budget not appropriately detailed to be meaningful (either too detailed as to be overwhelming or no detail with the “trust me” approach)
- Fund balance information not properly considered (reserves, designations and unreserved-undesignated pieces not broken out)
- Not being forthright with those who could protect you (e.g. resources expended without knowledge of superintendent and board)

So You Want to Build the Revenue Budget

- **Levy amounts** (sources codes 001-020)
(back out levy amounts to be paid with state credits)
- **State Aids** (source codes 200-399)
 - General Ed Aid (What if model)
 - Special Ed Aid
 - Special Ed Excess Cost Aid
 - State Credits (those subtracted from taxes)
 - All others (both IDEAS and non-IDEAS)
- **Federal Aids** (source codes 400-499)
 - Ensure that federal revenue is = to federal expenditures (so fund balance is not impacted if amounts are under-spent)
- **Interest** (source code 092) (take Aid Anticipation borrowing into account before allocating)
- **Tuition billing to other Districts** (source 021)
- **Tax Shift** (31% shift of Pay 01 referendum plus 100% advance recognized levies, can ignore revenue neutral piece until year-end if you choose)
- **All Others** (avoid the rollover of PY amounts)

**DOCUMENT,
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DOCUMENT**

WHERE DO YOU BEGIN?

- BUDGET TIMELINE
- REVENUE BUDGET DETERMINED BY FEBRUARY TO ALLOW TIME TO CONSIDER ANY NECESSARY EXPENDITURE ADJUSTMENTS

WHO DO YOU NEED TO INVOLVE?

- MORE THAN JUST YOU!

WHAT REVENUE BUDGET MODEL WILL YOU USE?

- KEY COMPONENTS ARE COMBINING AID, LEVY AND LOCAL REVENUES

Concept

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ENROLLMENT NUMBERS

- PAST TREND – APPLICABLE?
- USE FALL ENROLLMENT OR PROJECTED END OF YEAR ENROLLMENT
- ESTABLISH A MONTHLY TRACKING OF YOUR ENROLLMENT FIGURES TO ANTICIPATE CHANGES

Enhist YearEnd
Fall Mo Enroll

ADDITIONAL ENROLLMENT NUMBERS NEEDED FOR "WHAT IF"

- LEP PROJECTED NUMBERS - LEP REVENUE
- YEAR ROUND ADM's – CAPITAL FUNDING
- EXTENDED YEAR – EXTENDED YEAR REVENUE

WHAT IF

INPUT THE DETERMINED ENROLLMENT FIGURES INTO THE LATEST "WHAT IF" GENERAL EDUCATION REVENUE INTERACTIVE MODEL

What If

LEVY CERTIFICATION - WHERE DOES IT FIT INTO THE PUZZLE?

- BUDGET YEAR 2006-2007 USES THE PAY 06 CERTIFIED LEVY
- THIS IS THE LEVY YOUR BOARDS WILL CERTIFY IN DECEMBER

Levy

OTHER MISCELLANEOUS REVENUES

- THE WHAT IF AND CERTIFIED LEVY WILL NOT PROVIDE ALL OF THE REVENUE COMPONENTS NECESSARY
- REVENUE BUDGET CHECKLIST PROVIDES EXAMPLES OF REVENUE SOURCES TO CONSIDER

SPECIAL EDUCATION REVENUE

- AID ENTITLEMENT REPORT – AID IS BASED ON FINAL DATA OF TWO YEARS PRIOR
- CAREFUL NOT TO DOUBLE UP ON SPECIAL EDUCATION REVENUE BETWEEN GENERAL FUND AND TRANSPORTATION FUND IF YOUR DISTRICT KEEPS THEM SEPARATE

Special
Education

SPECIAL EDUCATION EXCESS COST CALCULATION

- NUMBER SHOWN ON CERTIFIED LEVY MAY NOT BE WHAT YOU WANT TO USE
- TOOLS – SPECIAL EDUCATION EXCESS COST PROJECTION MODEL

Excess

GRANTS

- IDENTIFY WHO IN YOUR DISTRICT WORKS WITH THE PROCUREMENT OF GRANTS
- ESTABLISH PROCESS TO RECORD NEW GRANTS

REVIEW

- ENTER AID, LEVY, AND OTHER REVENUE SOURCES INTO YOUR REVENUE BUDGET MODEL

REVIEW

- INPUT YOUR BUDGET INTO YOUR FINANCE SYSTEM LINE ITEM AND COMPARE TO BE SURE SOURCES, PROGRAMS AND FUNDS ARE EQUAL BETWEEN SYSTEMS

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COMPARE AND CONTRAST REVENUE BUDGETS FROM PRIOR YEAR TO CURRENT YEAR

- PERFORM AN ANALYTICAL REVIEW OF YOUR REVENUE BUDGET DRAFT
- DOUBLE CHECK FOR ANY DOUBLE ENTRY OF DATA

COMMUNICATE REVENUE ASSUMPTIONS TO A FINANCE COMMITTEE AND FELLOW ADMINISTRATORS

Fd Bal Cover Sheet

REVENUE BUDGET MODIFICATIONS

- WHEN?
 - AT A MINIMUM: MID-YEAR
- WHAT?
 - INCLUDE OVER OR UNDER- ACCRUALS FROM THE PRIOR YEAR AUDIT AMOUNTS
- WHY?
 - VARIOUS REASONS
 - salary settlements and related benefit changes
 - legislative changes
 - federal and local grants
 - enrollment variances from projection
 - changes in level of participation
 - changes in fees
 - changes in market conditions,
 - cash flow and interest rates

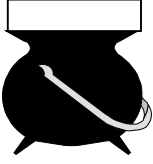
WHAT STEPS SHOULD YOU DO WHILE MODIFYING YOUR BUDGET?

Final

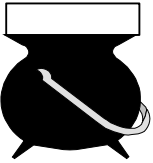
Current

You Remember the Tax Shift, Don't You?

What the Tax Shift Is



The good old days before "the shift" - most Districts don't need short-term borrowings



The bad days after "the shift" - many Districts rely on short-term borrowings



Tax Shift for Fiscal 2004-05

ARTICLE 5 NUTRITION; SCHOOL ACCOUNTING; AND OTHER PROGRAMS

651 Area Code

Property Tax Levy Recognition Shift (Sections 4, 11, 34; Revisor's bill, sections 19 & 20.)

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Andrey
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582-8793

• **Early recognition of levy revenue** (Section 4). Beginning in FY 2004, requires a school district to recognize as revenue in June of each year an amount equal to the lesser of:

1. the May, June and July tax settlement revenue received in that calendar year plus the July and August general education aid payments received in that calendar year, or
2. the sum of:
 - (a) the greater of the percentage to be determined by the Department under section 34 of the current referendum levy or 31% of the Pay 2001 referendum levy, plus
 - (b) 100% of the following levies: integration levies for first-class cities; unemployment insurance levies; health insurance, health benefits and certain retirement levies; career & technical levy; and levy adjustments for law changes, plus
 - (c) the percentage to be determined by the Department under section 34 of all other school district general and community service fund levies.

Aid reduction (Section 11). Each year, state aid payments in the current fiscal year are reduced by the amount of levies that are recognized early under section 4, excluding the 100 percent shifted levies.

Direction to commissioner (Section 34). Directs the commissioner to calculate the property tax recognition shift percentage that raises \$230,378,000 in aid reductions for fiscal year 2004. This percentage will be applied in calculating the property tax shift for FY 2004 and later. (The estimated shift percentage is approximately 47%.)

Tax Shift for Fiscal 2004-05

MINN. DATE 09/21/05 (IDEAS)
REV TIME 08:33
DISTRICT

MINNESOTA DEPARTMENT OF EDUCATION
PROPERTY TAX SHIFT YEAR-END RECONCILIATION
*** DATA FOR COMPLETING 2004-2005 FUND RELEASE ***

DISTRICT FUND/LEVY CATEGORY	(1) 04-05 REF		(2) 04-05 REV		(3) STATE AID		(4) REVENUE	
	SHIFT AMOUNT	REVISED AMOUNT	SHIFT AMOUNT	ADJUSTMENT	ADJUSTMENT	ADJUSTMENT	ADJUSTMENT	
	04 PAY 05	REV CODE 041/005	04-05 REV	ADJUSTMENT	ADJUSTMENT	ADJUSTMENT	ADJUSTMENT	
	04 PAY 05	REV CODE 041/005	04-05 REV	ADJUSTMENT	ADJUSTMENT	ADJUSTMENT	ADJUSTMENT	
01 GENERAL - SHIFT & ADJUST AID	8,249,418.11	5,112,290.22		3,137,127.89				
01 GENERAL - CORP REF (SO AID ADJ)	144,151.00	6,299,978.28						
01 GENERAL - CORP REF (SO AID ADJ)	3,289,760.77	3,289,760.77	0.00					
01 GENERAL - AID REPERFORM SHIFT	144,862.82	116,982.81	0.00					
01 GENERAL - CAREER TECHNICAL	183,847.04	183,847.04	0.00					
01 GENERAL - 100% SHIFT, NO ADJUST	0.00	6,219.00	0.00					
01 GENERAL - REEMPLOY INS (REPV)	0.00	122,023.29	122,023.29					
01 GENERAL - REEMPLOY INS (REPV)	0.00	0.00	0.00					
01 GENERAL - LEGISLATIVE CHANGES	0.00	0.00	128,242.29					
01 GENERAL FUND TOTAL	8,344,718.68	6,205,101.55	128,242.29	2,289,920.43	2,343,297.18	53,376.47		
04 COMB SERV - SHIFT & ADJUST AID	515,480.94	456,752.24		58,728.70				
04 COMB SERV - SHIFT & ADJUST AID	0.00	0.00	0.00					
04 COMB SERV - LEGISLATIVE CHANGES	515,480.94	456,752.24	0.00	58,728.70	16,711.32	42,017.18		
04 COMB SERV FUND TOTAL	8,862,240.41	6,661,853.79	128,242.29	3,348,649.23	2,360,008.42	11,359.09		
TOTAL								

Arnts shifted at end of CY Arnts shifted at end of FY year Does impact fund balance Revenue neutral - add offset Adj in IDEAS relating by 650 Audit Adj between funds

DEFINITIONS OF LEVY CATEGORIES WITHIN FUNDS:
THE FOLLOWING CATEGORIES ARE MUTUALLY EXCLUSIVE, THAT IS, EACH LEVY APPEARS IN ONE CATEGORY ONLY.
ANY CATEGORY THAT IS NEGATIVE IS NOT SHIFTED AND IS SHOWN AS ZERO.

SHIFT & ADJUST AID - INCLUDES REVENUE FROM LEVIES NOT IDENTIFIED BELOW AND SUBJECT TO EARLY SHIFT.

OPERATING REPERFORM (SIN AND ADJUST) - THIS CATEGORY IS THE SUMMER OF SARC OR THE REFERENDUM LEVY SHIFTED AT 31%.
THIS CATEGORY IS THE PAID REFERENDUM LEVY SHIFTED AT 31%.

OPERATING REPERFORM (SO AID ADJUST) - THIS AMOUNT SHOULD BE CONSTANT FROM YEAR TO YEAR.

AID REPERFORM SHIFT - THIS IS AN ADDITIONAL REVENUE SHIFT FOR DISTRICTS THAT HAD A DECREASE IN PAY 1994 REFERENDUM LEVY DUE TO THE NET OF CHANGE IN THE ALLOCATION OF SARC AND THE INCREASE IN REFERENDUM EQUALIZATION AID. THIS AMOUNT WILL BE CONSTANT FROM YEAR TO YEAR.

CAREER TECHNICAL 100% SHIFT, NO ADJUST - INCLUDES LEVIES THAT ARE SHIFTED AT 100% WITH NO ADJUSTMENT.

REEMPLOY INS (REPERFORM) - INCLUDES LEVIES THAT ARE SHIFTED AT 100% AND FOR WHICH THERE IS NO REDUCTION TO STATE AID. THIS CATEGORY INCLUDES EMPLOYMENT FOR VETERAN DISTRICTS, ADDITIONAL RETIREMENT, HEALTH INSURANCE, HEALTH BENEFITS AND RELATED ADJUSTMENTS.

REEMPLOY INS (IDEAS) - INCLUDES REEMPLOYMENT INSURANCE LEVY AND ADJUSTMENTS FOR F013 SHIFTED AT 100% WITH NO ADJUSTMENT.

REEMPLOY INS (IDEAS) - INCLUDES REEMPLOYMENT INSURANCE LEVY AND ADJUSTMENTS FOR F014 AND LATER SHIFTED AT 100% WITH NO ADJUSTMENT.

LEGISLATIVE CHANGES - INCLUDES SELECTED LEVIES THAT HAVE BEEN ADJUSTED BASED ON LEGISLATION THAT CHANGES A LEVY AUTHORITY AFTER THE LEVY HAS BEEN CERTIFIED (SEE M.S. 126C.41, SUBD 6). THE REVENUE SHIFT IS AT 100% AND THERE IS NO ADJUSTMENT TO STATE AID. THERE ARE CURRENTLY NO LEVIES IN THIS CATEGORY.

WRAP UP..

- ANY QUESTIONS?