

Accounting Worksession

Basic Education Finance Task Force
September 16, 2008

Question and Task (per Chair)

- State and local funds are co-mingled in accounting categories
- Do not know if local funds are expended to subsidize state responsibilities
- Need to establish systems that clearly distinguish state funding from local funding
- Focus of work session:
 - What needs to happen for this change to occur?
 - What problems might be created by this change?

Implied Goal of Questions

- Policymakers can quantify district expenditures on state-defined responsibilities to identify adequacy of state funding for these responsibilities

Outline of Discussion

- Background on Current Structure and Data Available
 - What data is lacking?
- Case Study: Pupil Transportation
 - Lessons of Transportation for Next Steps
- Options to Proceed
- Feasibility Implications

Expenditure Accounting and Personnel Background

- State requires districts to report expenditures by
 - Program (38 total)
 - Activity (37 total)
 - Object (9 total)
 - Revenue (116)
- State requires October 1st snapshot for all staff by Program, Activity, and Duty Codes for salary and district paid benefits.

Between These 4 Layers plus Personnel, Isn't There Enough Data?

Revenue Sources (116 total)	Programs (38 total)	Activities (37 total)	Objects (9 total)
Non-high Participation	Basic Education (01)	School Supervision (21)	Debit Transfer (0)
All Day Kindergarten	Special Education (21)	Learning Resources (22)	Credit Transfer (1)
State Revenue—General Purpose	Special Education Institutions (26)	Principal's Office (23)	Salaries—Certificated Employees (2)
General Apportionment	Vocational Education (31)	Guidance and Counseling (24)	Salaries—Classified Employees (3)
Local Effort Assistance	Skills Centers (45)	Pupil Management and Safety (25)	Employee Benefits and Payroll Taxes (4)
State Forests	Learning Assistance Program (55)	Health/Related Services (26)	Supplies, Instructional Resources, and Noncapitalized Items (5)
Other State General Purpose—Unassigned	State Institutions / Centers / Homes (56)	Teaching (27)	Purchased Services (7)
Local Property Tax	Transitional Bilingual (65)	Extracurricular (28)	Travel (8)
Sale of Equipment	District-wide Support (97)	Payments to Other School Districts (29)	Capital Outlay (9)

Accounting Layers are Not Linked; Personnel Not Linked to Accounting

- Program (38 total)
 - Activity (37 total)
 - Object (9 total)
 - Revenue (116)
- Expenditures are linked, one-to-one
- Some Revenue codes are assigned to specific Programs, some are undefined

- Personnel is October 1st snapshot (large portion but not all staff), so does not correspond to annual expenditures (all staff).
- It does however, capture 94.8% of total salary expenditures.

Expenditure Specificity

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2006-07 expenditure for 01, 27, and 4: \$688,794,326

Expenditures – Program Matrix

	Debit/ Credit 00/01	Certificated Salaries 02	Classified Salaries 03	Benefit Costs 04	Supplies & Materials 05	Contracts 07	Travel 08	Capital 09
21 Supervision								
22 Learning Resources								
23 Principal's Office								
24 Guidance and Counseling								
25 Pupil Management and Safety								
26 Health/Related Services								
27 Teaching								
28 Extracurricular								
29 Payments to School Districts								

Unassigned Revenue can be Attributed to Any Program

- 30 undefined revenue codes = \$1.9 billion
- 22% of total revenue
- 17 codes = \$37 million
- 11 = \$275 million
- 1 = \$190 million (Local Effort Assistance)
- 1 = \$1.4 billion (Local Property Taxes)

Defined Revenue to Program

- Of 38 Programs, all have defined revenue links to remaining 86 Revenue Sources
 - 14 Federal Programs linked to 18 Revenue Sources
 - 9 State Basic Education Programs linked to 23 Revenue Sources
 - 14 Special Grants and Programs linked to 15 Revenue Sources
 - 1 Program for Districtwide Support
- Most Programs are linked to multiple revenue sources
- *Between undefined revenue codes and Programs with multiple links, cannot use current accounting requirements to impute how Revenue is expended by Program, Activity, and Object with enough certainty to test state funding adequacy*

Is it necessary to have Revenue by Program, Activity, and Object?

Part IV Report

- Report expenditures by revenue category (3 total) and by Program
- [See Attachment 1](#)
- Does this identify for policymakers how much state responsibilities are subsidized by local resources?
- Report does not identify purpose of local resources expenditure
 - Base salaries vs. supplemental salaries
 - Insurance for basic education program or liability associated with district negligence
 - Teachers for 1,000 instructional requirement or extended-day

Problem to Solve

1. Expenditure detail not associated with Revenue Source
 - = Link expenditures to Revenue Source
 - Only solves part of the problem

To Test State Funding Adequacy Must Know:

1. What is a state responsibility?
 - State basic education responsibilities must be defined
 - Alternatively, identify what major activities/expenses are not a state responsibility
 - Program-based definition too high level
2. What did the state define as the funding level for that responsibility?
3. What did districts expend on the responsibility?
 - Where did local property taxes subsidize state responsibilities?

Example: Pupil Transportation

- Districts expended \$127 million more than received in state revenue (2006-07)
- How much of gap is a state responsibility?

Example: Pupil Transportation

- Defined
 - To/From Transportation
 - Program 99 to include only To/From
 - method all districts will use to transfer non-To/From expenditures out of Program 99
- *2007-08 expenditure data for Program 99 will reflect expenditures for To/From transportation only*

Example: Pupil Transportation

To/From definition does not address:

- Salaries
 - Wait-time pay?
 - Over-time pay?
 - Salaries in excess of state allocation?
 - Benefits in excess of state allocation?
- Transportation w/in 1 mile?
- Extracurricular activities?
- Extended-day runs?

Is it relevant what fund source makes up the difference?

- Local Effort Assistance
- Impact Aid
- Local Property Tax
- General Apportionment
- Districts may or may not code their own expenditures to a specific revenue source; if they do, each is different

Lessons from Pupil Transportation

- State policy must drive accounting structure
- Definition of state responsibilities must be practical (simple) → target detail to largest expenditures
 - Salaries and benefits are most obvious, but others must be pre-identified
- Approach to isolating expenditures on state responsibility may differ by Program
 - Isolate state responsibility in a Program (or sub-Program)
 - Or, within a Program, define state responsibility by Activity, Object, Sub-object or some combination

Salaries and Benefits Examples

Salaries

Does state responsibility include:

- Class size overload pay?
- Days beyond 182?
- Pay for time associated with curriculum review and leadership?
- Department Chair role?
- Incentives for experience or education degrees?

Benefits

Is the state responsibility defined by:

- State allocation per employee, or
- Cost for districts to offer the menu of state employee packages in their district, or
- Package districts and employee groups negotiate

Options for Accounting System

Option A

- New state accounting structure and system
- Code each expenditure (invoice) by Revenue, Program, Activity, and Object
- Roll-up reports automatic

Option B

- State accounting structure revised to isolate state responsibilities
- Districts continue to have wide authority for individual accounting (some infringement would be required)
- Report Revenue Source at state level according to new OSPI accounting rules
- Define more discreet categories for staff compensation related to state responsibility
- Expenditures for state responsibilities, with Revenue Source compared to state funding

Recommended Approach: Option B

1. Define state responsibility
2. Define state funding level at more specific level
3. Change accounting and staff reporting categories to isolate state responsibility from non-state, consistent with state funding categories
4. Districts account for expenditures by Program, Activity, Object
 - maybe sub-Program and/or sub-Object
5. Define accounting rules for attribution of expenditures against Revenue Sources when districts report to state

Notes on Defining State Responsibility

- Within General Apportionment, Special Education, LAP, Bilingual, Transportation
 - Within these programs, what activities are not a state responsibility? (e.g., lawsuits against state)
- Some definitions are unique to a program; others cut across
 - Supplemental salaries
 - Benefits
 - Half vs. Full-day Kindergarten
- Define intent and level of state funding
 - Fully fund utilities actual cost?
 - Fund curriculum adoption on 8 year cycle?
 - Certainty of state adequacy with new accounting system will depend on clarity of definition of state responsibility

Defining Basic Education

Does Include

- General Apportionment
- Learning Assistance Program
- Bilingual Education
- Pupil Transportation
- Special Education

Does Not Include

- K-4 Ratio Enhancement
- Full-day Kindergarten
- Gifted Education
- I-728
- Supplemental Salaries
- Promoting Academic Success
- 2 Learning Improvement Days
- Lawsuits against state
- District negligence

Notes on Defining Accounting Rules for Revenue

- Must define indirect by Program or cannot attribute revenue
- Define hierarchy of revenue reporting rules
 - Local Effort Assistance, Levy, General Apportionment, Impact Aid
 - Which pays to build fund balance?

Feasibility for School Districts

- Incremental change or shift all changes in one year?
- Staffing requirements in business office?
- Accounting system requirements?

- Fiscal impact not known until define change
- Districts implementing transportation change now