

Tackling Long Range Budget Planning in the School District Environment

by Karin M. Smith, MBA, SFO, CFE, Consulting Partner

Posted on January 11, 2023



As we turn the calendar to January 2023, budget planning for fiscal year 2024 moves up on the priority “To Do” list. Aggregate Expenditure Limitation (AEL) challenges are glaring at Arizona school districts, which can make budget planning for the next fiscal year and beyond difficult to tackle. Budget planning is a fluid and constant task and requires a consistent pulse on all the moving parts. While some variables may not be known until much later into the spring, or as recent years have proved – into the summer, there are several variables that need to be on the budget radar early in the process. This article will review some important variables to add to your District’s budget planning for 2024 and beyond.

Funding Variables – Known and Unknown

There are various components of the Arizona School District funding formula that drive the budget limit. These variables are determined by the legislature and other entities. Let’s review a few of these components and how to plan accordingly for them in your District’s budget projections.

Per Pupil Funding

In FY23, this amount was increased by a significant amount from \$4,390.65 to \$4,775.27. The per pupil amount is a key decision made by the legislature which is not finalized until the state budget process is completed. In recent years, this process was not completed until the end of June which made budget planning a challenge. Many school districts will build projections based on the minimum increase that is expected to be appropriated by the legislature. The “per pupil” funding discussion typically encompasses the base support level (BSL), the District

Additional Assistance (DAA) per pupil and the per mile rate used for the Transportation Support Level (TSL) calculation. In FY23, the variables approved by the state legislature were as follows:

Base Level Amount: \$4,775.27*

DAA: PreK-8: \$502.33* and 9-12: \$549.33* (added textbook amount of \$77.65)

Transportation Support Level: \$2.32 and \$2.83

*for school districts with 600 or more students

Classroom Site Fund

Another key variable in budget planning is the Classroom Site Fund per pupil amount. This amount is multiplied by the school districts' prior year Group A weighted enrollment to determine the current allocation. The Joint Legislative Budget Committee (JLBC) is tasked to determine this amount each year based on the funding available. ARS 15-977 requires that the JLBC set this amount by March 31 of each year. The FY23 per pupil amount is \$711, and the FY24 amount will be set by March 31, 2023. A district can begin to estimate the CSF budget capacity by reviewing the projected current year Group A weighted enrollment from its most recent BSA 55 and multiply by the amount set by the JLBC later this spring. The total CSF budget capacity will be this amount plus any available budget balance carryforward plus interest earned.

Proposition 123

In May 2016, Arizona voters approved Proposition 123 that essentially settled a lawsuit related to school funding. As part of this voter approved initiative, Arizona voters authorized the allocation of additional funding which is referred to as "Prop 123 Funding", and this allocation can be budgeted to either the Maintenance and Operation (M&O) budget or the Unrestricted Capital Outlay budget capacity on page 7. For FY23, a total of \$75M is allocated across LEAs on a proportionate basis. An important factor to be aware of related to this funding source is that Prop 123 funding will sunset after FY25, meaning school district budgets will be reduced by this amount. To understand the impact of this funding source sunset, districts can find this allocation on Page 7 of their budget file and on the most recent BUDG25.

Enrollment Projections

Per pupil funding and enrollment are two critical components of all school district budgets. Student enrollment is measured by Average Daily Membership (ADM). ADM is then weighted based on student grade level and need. Forecasting ADM is a critical component to budget planning and can be accomplished through various methodologies. Let's review some common approaches:

Rolling Average

This methodology calculates the current year enrollment over prior year ratio for each of the three prior years and then multiplies the current year enrollment by the average ratio. The challenge with this methodology is accounting for the COVID year anomalies, most specifically FY20-21 which likely had enrollment shifts not consistent with prior year trends.

Cohort Survival Method

The Cohort Survival Method calculates the growth, or decline, in enrollment in a grade level over a period based on the ratio of students who are enrolled in one grade and move on to the next grade level. Depending on the grade levels served by the district, the number of years evaluated may vary (i.e., K-8 vs 9-12). Another way of looking at Cohort Survival Method is to compare the incoming kindergarten counts compared to the outgoing twelfth grade students. This approach can be adjusted to kindergarten compared to eighth grade or ninth grade compared to twelfth grade.

Demographic Analysis

A geographic analysis based on demographics would include potential housing growth and age decline of the school district community. Demographic trends related to residential growth often shift to an aging community over time, meaning the families are not moving away but no school age children are living in the household.

Birth Rates

Another, albeit more broad method of enrollment projections, is to evaluate the birth rate from five years prior in the district geographic area. This can help predict the potential enrollment for kindergarteners and the overall kindergarten cohort in the community.

Competition Scan

Another important aspect to include in enrollment projections is other education options in the district community. Completing an education scan of other instructional options for families including charter schools, private schools, and home school populations. These all will have an impact on the district enrollment. A new charter school or private school opening in the school boundaries can have a direct impact on the number of students to anticipate for the next school year.

As you can see, there is no one simple approach for projecting enrollment. When projecting enrollment, it is important to consider multiple enrollment projection models which allows for examining the potential for growth or decline.

Staffing Considerations

Employee wages and employer paid benefits account for the largest percentage of district operating expenditures within the M&O Fund. Most school districts expend 75 to 85 percent of their M&O budget on salary and benefits. There are a number of factors to keep in mind while building projected budgets. While there are many considerations such as wage increases and health insurance adjustments, some additional considerations to include in these circumstances are as follows:

Current Staff Vacancies

It is well known that Arizona school districts are experiencing a labor shortage. This impacts all areas of the organization from the classroom to the transportation department to the overall district operations. When projecting budget needs, it is important that projections do not only account for prior year paid wages and benefits; rather, the district should also include the wages and benefit costs for vacant positions as an intended expenditure in the new year budget. Incorporating these costs will ensure the projections include the impact of salaries and benefits when the district is fully staffed.

Minimum wage/wage compression

In 2016, Arizona voters approved Proposition 206, the Fair Wages and Healthy Families Act. This Act included a provision to increase the Arizona minimum wage each year based on the Consumer Price Index change from August of the preceding year over the level from August of the previous year. The state minimum wage increased to \$13.85 as of January 1, 2023. The City of Tucson voters approved a separate provision to gradually increase the minimum wage to \$15 by January 1, 2025. City of Flagstaff voters approved a measure to increase the minimum wage at a higher rate. The City of Flagstaff minimum wage increased to \$16.80 as of January 1, 2023.

Monitoring the impact of minimum wage is not only important from a compliance perspective, but as the minimum wage continues to increase each year, districts will experience wage compression challenges. Considering both the projected minimum wage increase for the subsequent fiscal year and the wage compression challenges should be incorporated into the budget projections.

Retirement Rate Increases

The Arizona State Retirement System Board has identified an increase of .12% in retirement contribution rates in FY24. The current contribution rate will increase from 12.17% to 12.29%. This mandatory increase should be included in the FY24 budget projections.

Covid Relief Funding Expiration

A significant area of budget planning must include the impact of the spend down of the various COVID related grants provided to school districts in recent years. Arizona school districts

received nearly \$4.6 billion in relief monies through June 30, 2022. These monies have provided a multitude of resources to Arizona students. ESSER I has officially come to an end and the completion of ESSER II is right around the corner in September of 2023. The ESSER III expiration will sneak up on school districts in September 2024. It is important to evaluate the current expenditures from these and other COVID related grants, particularly those recurring expenditures. School districts should identify the positions currently paid from these funding sources, even if the positions were new positions created to respond to student needs. Many of the positions who address student social and emotional needs will be difficult to eliminate when the funding expires as the student need will not be eliminated. For budget planning purposes, school districts should carefully review the positions currently paid from these funding sources and begin evaluating the sustainability of these services to students.

Other Big-Ticket Impacts

The impact of the AEL is receiving a significant amount of attention because it will have detrimental impact to school district operations if it is not overridden by the state legislature. In addition to this “Big-Ticket” impact, there are additional items that school districts need to ensure are on the budget radar as well.

Prop 123

Earlier in this article, the Proposition 123 funding was discussed as the \$75M of additional funding currently allocated will sunset after FY25. Another important variable tied to this voter approved legislation is referred to as the “Prop 123 Trigger.” When approving this proposition, the Arizona Constitution was amended with a significant impact to the state budget appropriations. The Arizona Constitution, Article II Section 11 was amended to include the following language:

- Beginning in 2024-2025 on or before Feb 1 each year, if the total amount of general fund appropriations for ADE is at least **49% but less than 50%** of the total general fund appropriation for the current fiscal year, then the JLBC has to notify the governor and the legislature and the legislature is **not required to make the 2%** or inflation adjustment for the base level in the next fiscal year and **can reduce the base level for the next fiscal year by the amount of the inflation adjustments made to the base level in the current fiscal year.**
- Beginning in 2024-2025 on or before Feb 1 each year, if the total amount of general fund appropriations for ADE is at **least 50%** of the total general fund appropriation for the current fiscal year, the JLBC has to notify the governor and the legislature and the legislature is **not required to make the 2%** or inflation adjustments to the base level for the next fiscal year and **can reduce the base level for the next fiscal year by two times the amount of the inflation adjustments made to the base level in the current fiscal year.**

Reference:

<https://www.azleg.gov/viewDocument/?docName=http://www.azleg.gov/const/11/11.htm>

This is important to be aware of as the state legislature negotiates the budget in FY25 and beyond.

Override future

ARS 15-481 allows school districts to increase its M&O budget up to 15% of its Revenue Control Limit (RCL) of the prior year ADM if the voters approve the initiative. This statute also allows school districts to seek authorization from its voters to increase their capital budget by 10% of the RCL. Because these budget increases are contingent upon the will of the voters, it is important to consider in budget projections the impact the failure of a continuation override if the voters elect to do so. School districts become increasingly reliant upon these monies and voters voting down the override can be detrimental to the budget. As a result, it is important school districts include in the budget planning scenarios to include the override and the budgetary impact of this funding source being eliminated.

School budget planning takes on many different forms and will look different for school districts based on their size, their community, and the available resources. Regardless of these factors, all school districts will execute the budget planning process in their own way. Consideration of the various variables identified in this article will help your school district leave no factor unaccounted for.

The content of this article is for general information purposes only and does not constitute advice. Heinfeld, Meech & Co., P.C. tries to provide content that is true and accurate as of the date of writing; however, we give no assurance or warranty regarding the accuracy, timeliness, or applicability of any of the contents.