



EDMOND PUBLIC SCHOOLS

Empowering all students to succeed in a changing society.



20 Questions (and Answers) About School Finance

1. WHAT IS A BUDGET?

A budget is a plan for the utilization of revenues and expenditures to be used over a specific time period (i.e. a fiscal year --July 1 to June 30). This is not the “Estimate of Needs” that is prepared each year by the auditor. Rather, the budget is a much more detailed “financial plan” for the district.

2. IS IT NECESSARY TO HAVE A BUDGET?

Yes. Oklahoma Statutes (Title 70 O.S. Sec 5-134.1) requires a school district to “...adopt a ... budget for the current fiscal year. The ... budget shall include functional categories as defined ... by ... the Oklahoma Cost Accounting System (OCAS) ... “This law was adopted by the State Legislature in 1994, and became effective on July 1, 1994.

3. WHAT IS AN “ESTIMATE OF NEEDS?”

Oklahoma Statutes (Title 68 O.S. Sec. 3002) require the Board of Education, prior to Sept. 1 of each year, to “... make a written itemized statement of estimated needs (expenditures) and probable income from all sources including ad valorem taxes for the current fiscal year ...”

The Estimate of Needs includes all appropriated funds of the district: General Fund, Building Fund, Child Nutrition Fund, Bond Funds, and Sinking Fund.

4. IS THE ESTIMATE OF NEEDS THE OPERATIONAL BUDGET OF THE DISTRICT?

No. The Estimate of Needs establishes a maximum amount that the Board of Education can approve for its various budgets. By law, the district’s operational budget cannot exceed the “total appropriation” (maximum allowable amount) established by the Estimate of Needs.

5. DOES THE ESTIMATE OF NEEDS INCLUDE ALL REVENUE SOURCES ESTIMATED TO BE RECEIVED BY THE DISTRICT DURING THE FISCAL YEAR?

Yes. However, by law, the Estimate of Needs can only include 90% of the projected tax collections from Ad Valorem (property tax) revenues for the General Fund and Building Fund, as 10% is required to be excluded as a “delinquency reserve”.

Normally, school districts estimate between 93% and 97% of ad valorem collection for their operational budgets. All other revenue sources are based on historical collection rates or official allocation notices for state and or official allocation notices for state and federal grant programs.

6. HOW IS AN OPERATIONAL BUDGET PREPARED?

A brief summary of the major steps to preparing an operational budget are:

1. Estimate the total amount of revenues to be received during the fiscal year. This should be based on historical collection rates, trends, or allocation notices.
2. Include, in addition to the revenue estimates, the fund balance (carryover) from the previous fiscal year to determine a “total funds available” amount.
3. Estimate total expenditures by category. These major categories, listed below, should be based on historical costs, new or increased costs, new programs, and other factors.
 - a. Payroll/benefit costs (this is the largest and most important estimate.)
 - b. Fixed costs (insurance, utilities, etc.)
 - c. Operational budgets (schools, depts.)
 - d. Other curriculum/instructional and related costs (textbooks, testing, professional development, etc.)

The total operational budget must not exceed the “total appropriation” amount authorized by the Estimate of Needs. Also, the operational budget should be prepared with proper planning so total expenditures are less than total funds available (revenues plus fund balance). This will ensure that a fund balance amount will be carried over at the end of the fiscal year.

7. WHAT IS “FUND BALANCE”?

Fund balance is the “unencumbered” or “available” balance of funds at the end of a fiscal year that has not been reserved to pay for any goods/services which will be received after June 30 (the end of the fiscal year). This is also referred to as a “carryover” or “surplus”.

8. WHY IS A FUND BALANCE NECESSARY?

A fund balance is necessary for the following reasons:

1. To help districts fund payroll and other costs during the first half of the school year when expenditures are more than revenue collections because there is no State Aid payment received in July, and the majority of ad valorem tax revenue is not received until January and April. (NOTE: State Aid payments are received equally over a **period of 11 months - August through June**. State Aid is not paid to the district in a “lump sum” at the beginning of the fiscal year.)
2. To meet any unanticipated expenses.
3. To help fund future budgets, if planned expenditures exceed anticipated revenues.

The percentage of fund balance that can be carried into the next year is limited by state law. The penalty for excess carryover is a reduction to state aid the next year.

9. WHAT ARE THE EDMOND SCHOOL DISTRICT’S REVENUE SOURCES?

Local (44%) - Ad valorem taxes, interest earnings, tuitions, rentals and reimbursements
Intermediate (4%) - County 4-mill taxes, resale property fund, apportionment taxes
State (43%) - Gross production taxes, REA taxes, motor vehicle taxes, school land earnings, tax stamps, State Aid, state categorical grants
Federal/Other (9%) - Federal grant programs, activity fund reimbursements, etc.

10. WHAT IS STATE AID?

State Aid represents the funds that are appropriated by the State Legislature for school districts and distributed by the State Dept. of Education through the “State Aid Formula”.

State Aid is based primarily on student counts, with allowances made for various student characteristics represented as grade and categorical weights.

State Aid uses the higher of the *current or two previous years’ student counts*. Thus, if a district’s student count increases, the State Aid is adjusted in the current year. If a district’s student count decreases, the State Aid does not decrease for two years.

The State Aid calculated using these student counts is then reduced for local revenue collections by subtracting “chargeables.”

11. WHAT ARE “CHARGEABLES”?

“Chargeables” are a district’s local revenue sources that are included in its annual State Aid calculation. The revenue sources are: Ad valorem property taxes, motor vehicle collections, gross production taxes, school land earnings, county 4-mill taxes and rural electric association taxes. The amount of these funds collected by a district (current year for ad valorem & previous year for others) are “charged” or subtracted from the district’s

State Aid since these funds are collected locally. As these revenue sources rise (like ad valorem taxes), the district’s “chargeables” also increase, meaning less State Aid for the district.

12. WHAT IS THE GENERAL FUND NORMALLY SPENT FOR?

The General Fund provides direct and support services for all students enrolled in the district. This includes salaries/benefits, instructional supplies/ materials, equipment, utilities, insurance, other costs. School districts typically spend 80 to 95 percent of the General Fund on salaries and benefits.

13. WHAT PORTION OF THE GENERAL FUND IS SPEND ON SALARIES AND BENEFITS?

Approximately 95%.

14. WHAT IS THE BREAKDOWN OF THE SALARY AND BENEFIT COSTS?

Teachers/Assistants 72%
Support Staff 21%
Administrators 7%

15. WHAT IS THE BUILDING FUND NORMALLY SPENT FOR?

The Building Fund provides for maintenance and repair operations, upkeep and construction of district facilities and grounds, contractual services, and salaries/benefits for custodial and maintenance services. By law, only salaries and benefits for these purposes may be paid from the Building Fund.

16. WHAT IS THE CHILD NUTRITION FUND NORMALLY SPENT FOR?

The Child Nutrition Fund provides for the purchase and delivery of food services to the district’s students and staff on a daily basis. This includes food costs, salaries/benefits for cafeteria staff, and purchase, maintenance, and repair of equipment.

17. CAN SCHOOL DISTRICTS “BORROW” MONEY?

Oklahoma statutes generally prohibit school debt, except for the following three instances:

- 1. Bond issues
- 2. Lease-purchase agreements
- 3. Non-payable warrants

The most common way that school districts “borrow” money is through the passage of bond issues. State law requires approval of at least 60% of the voters in a bond election before a district can issue bonds.

18. WHAT CAN BOND ISSUE PROCEEDS BE SPENT FOR?

Bond issue proceeds must be spent for improving or acquiring school sites, constructing, repairing, remodeling and equipping school buildings, and acquiring school furniture, fixtures, equipment, uniforms, technology and transportation equipment.

No less than 85 percent of all bond issue proceeds must be spent on the list of projects included in the bond resolution and approved by the voters. The remaining 15 percent can be spent on similar-type projects as approved in the bond issue election or can be used to reduce the sinking fund debt. ***By law, no salaries, benefits or related costs can be paid with bond fund proceeds or interest earnings.***

19. HOW ARE BOND ISSUES PAID OFF?

Bond principal and interest are paid from ad valorem tax revenues. Districts collect ad valorem taxes through a tax levy assessed on real property, personal property and public service property and place these collections in the “Sinking Fund.” This tax levy is referred to as the “Sinking Fund mill levy”, and is separate from the General Fund and Building Fund tax levies

School bonds are limited to a 25 year term by state law, but five to ten year bonds are typical.

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The Sinking Fund is also used to pay any judgments levied against the school district. By law, no other expenditures can be paid from the Sinking Fund. The Sinking Fund levy changes each year based on the total property valuation in the district and the amount of bond principal and interest paid off during the year.

20. WHAT IS A MILL LEVY AND HOW IS IT USED TO CALCULATE PROPERTY TAXES?

A “mill” is a term that was established in the Constitution of the State of Oklahoma. It is equivalent to one-tenth (1/10) of one penny (\$0.001). The total mill levy for a taxpayer’s property includes all levies of the following entities that can choose to levy a tax.

- 1. School district
- 2. Vo-Tech district
- 3. County / City
- 4. Hospitals
- 5. Library

Below is an example of how to calculate the school district’s portion of taxes levied for the calendar year.

EXAMPLE: \$100,000 home in Edmond with a \$1,000 homestead exemption.

- 1. \$100,000 X 11% assessment ratio (Oklahoma County) = \$11,000
- 2. \$11,000 - \$1,000 exemption = \$10,000
- 3. Total millage levy:
 - General Fund 36.98 mills
 - Building Fund 5.28 mills
 - Sinking Fund 24.04 mills
 - Total levy 66.30 mills
- 4. Total school district taxes:
\$10,000 X 0.06630 (66.30 mills) = **\$663.00 (\$55.25 per month)**

To determine the total tax bill for the year, the other mill levies (vo-tech, county, etc.) must be included.