

Key Measures of Financial Health for School Leaders to Understand and Track

Unspent Budget Authority

Unspent Budget Authority, also known as “Unspent Balance” is the amount of unused district general fund capacity to spend on behalf of students, or *spending authority*, left over at the end of the fiscal year. This funding capacity carries forward into the next fiscal year. It is one-time capacity and may be funded with cash reserve fund balances or a cash reserve levy. The Unspent Budget Authority trend line is the most telling financial indicator school district leaders count on to inform expenditure decisions. The concept of Unspent Budget Authority only applies to the General Fund.

Since spending authority is generated on a per pupil basis as set by the legislature, the only way for school districts to gain additional Unspent Budget Authority is to reduce general fund expenditures relative to general fund authority. School districts have little authority to increase general fund revenues since the legislature determines the state cost per pupil increase in spending authority (previously known as allowable growth). Beyond that, a school district may impose an Instructional Support Levy (most have already done that), pursued every avenue of claiming additional modified supplemental amount (spending authority) for on-time funding for enrollment growth, budget guarantee for enrollment decline, drop-out prevention, English-language learner authority, or an additional modified supplemental amount for unique and unusual circumstance. Grants or federal funding, considered as miscellaneous income, also create dollar-for-dollar spending authority when the funds are actually received. School boards can set goals or parameters around Unspent Budget Authority targets to clarify their level of comfort with a specific range of Unspent Budget Authority.

Word of caution: Special education expenditures above the amount of weighting generated revenues create spending authority as dollars are spent due to the granting of spending authority by the SBRC. Similarly, reducing special education expenditures below the amount of weighting generated revenues does not increase spending authority of a district. Cuts to special education staff and expenditures do not “free up” spending authority or save general fund spending authority for other purposes. A school district’s unspent budget authority is not impacted by special education expenditures.

Solvency Ratio

Solvency ratio is a calculation used to assess financial health. The calculation measures the relationship of ending uncommitted fund balance to revenues as a percentage for the fiscal year. Here’s the calculation with references to the row on the Balance Sheet by Fund (or Revenues by Fund) where the information is found:

$$\frac{\text{Unassigned Fund Balance PLUS Assigned Fund Balance}}{\text{Total General Fund Revenues LESS AEA Flow-Through}}$$

Beginning FY 2012, GASB rules reclassified balances as *Restricted, Committed, Assigned or Unassigned*. Implementing the GASB rules may create a skewed comparison to the historical trend line that should not be misinterpreted.

The Solvency Ratio is a snapshot, point-in-time measure of the percentage of revenue remaining, assuming the district closed its doors on June 30 of the fiscal year, after gathering all the year's revenues and paying all the year's obligations. A district can only impact its solvency ratio by either increasing revenues or by reducing expenditures (or a combination of both). A district may choose to generate additional revenues through the use of the Cash Reserve Levy if they have not reached the statutory limit of 20% cash reserve relative to two prior years' general fund expenditures.

Although a recommended range of solvency ratios has typically been somewhere between 5 and 15 percent, the lower range considered "good" and the higher range considered "excellent", school boards should consider local reasons and comfort levels based on acceptable levels of risk that could justify a deviation from the recommended range.

Districts with a history of comparatively high solvency ratios should consider whether local experiences compel a continued higher solvency ratio trend and if so, at what expense? Districts must consider competing issues. Do we need to spend more on learning opportunities for students? Do we need to lower the level of taxation for district residents? In other words, is our high solvency ratio indicative of inadequate educational opportunities, taxation that is too high, or are we satisfied with the current positions in all of these areas?

An important caution: solvency ratio only relates to the relative fund balance of a district, so is not indicative of the spending authority position of the district. Many districts have experienced a negative solvency ratio for a number of years without any sanction from the Iowa Department of Education or State Board of Education.

Enrollment Trends

The Iowa school foundation formula is driven by student enrollment. Both increasing and decreasing enrollment will impact a school district's spending authority and need for expenditures. District leaders should consider short-term and long-term enrollment trends and contemplate scenarios for adjusting staffing and expenditures along the way. Trends in open enrollment (both in and out of the district) also directly impact the district's revenues and expenditures, and should be carefully analyzed and trended forward to anticipate financial impact. In many cases of districts encountering financial hardship, local leaders have looked back to discover that staff reductions were not made along the way as enrollment declines continued over a number of years.

Number of Staff/Staffing Ratios

The largest expenditure of a school district's general fund is salary and benefits costs for staff. District leaders should anticipate a staffing ratio that results in personnel costs somewhere around 80 to 85 percent of the average district's budget. Even small increases in salary or benefits costs combined with declining enrollment will compound very quickly if staffing ratios are not maintained and the costs of staff creep up to over 85%. Districts should evaluate the trend in salary and benefit costs for the general fund annually.

Building Level Staff/Staffing Ratios

One way to detect expected staffing cost increases in advance is to carefully consider trends in building level staff costs. Typically, elementary school staff costs are slightly less per pupil than the average cost per pupil, and the high school staffing costs are typically slightly higher per pupil. Deviations to this pattern can help to point out differences, perhaps in the seniority or degree status of staff in a particular building. Understanding building level staffing costs and anticipating sensible staffing ratios can inform district leaders, and help in long-term planning, to maintain a healthy overall staffing ratio with less disruption than staff reductions made after the district is experiencing economic hardship. It may also help inform districts when an early retirement plan may be utilized to reduce such expenditures.

New Money / New Spending Authority

Late every winter, school districts learn how much new spending authority they will receive for the next fiscal year based on the Oct. 1 enrollment headcount (assuming the legislature set the state cost per pupil percent of growth in the previous session for the next school year). This report has been historically referred to as the “New Money” report, although it isn’t money (cash or revenue) but instead, is a measure of change in spending authority. ISFIS has titled this report the “New Authority Report”. With the 101% budget adjustment in place, districts with declining enrollment must look one year beyond this notice of new spending authority in order to realize the impact of an enrollment decline. Historical looks at new spending authority and carrying forward trend lines for long-term planning can go a long way towards helping school leaders plan for revenue and expenditure changes down the road.

Four Key School Finance Ideas for Iowa School Leaders to Keep in Mind



1. Iowa school finance is based on the number of students we have in our district. The total amount of money our district has is determined primarily by the number of children enrolled. Except for a few specific tax levies dedicated to specific purposes, the state prohibits us from levying as much local money as we might otherwise want to fund our school district.
2. Our district's tax rate is primarily set by the school foundation formula. There are only limited steps a school district can take to increase or decrease the property tax rate.
3. Certain funds have to be spent on certain things. Each tax levy has a limited purpose and the general fund is for everything else. Although it may not make sense that we have enough money to pave a parking lot or buy a computer, but not enough money to hire teachers (or vice versa), that's the way the state law works.
4. Schools are a labor-intensive business: about 80 percent of a district's General Fund is made up of staff salary and benefit costs.