

Strategic School Finance CLCS Finance Seminar

October 29, 2024



COLORADO
Department of Education



What do we mean by Strategic School Finance?

- Historically, the district CFO has often had a compliance, deadline-driven, accounting-focused role
 - The typical CFO is focused on "keeping the trains running on time" and controlling costs
- Today, school districts face challenges that demand a more strategic approach
 - The strategic CFO is focused on leveraging the district's resources to meet the district's strategic goals

What do we mean by Strategic School Finance?

- GFOA's "Smarter School Spending" suggests the strategic CFO:
 - Fosters collaboration between the academic and finance staff in the budget process;
 - Sets expectations for the budget process and analyze the district's current state; and
 - Effectively communicates the process and corresponding decisions to stakeholders.

The budget needs to be rooted in the priorities of the district. Intentionally created instructional priorities provide a strong basis for developing a district's budget and strategic financial plan.



1. Plan and Prepare

- A. Partnerships
- B. Principles and Policies
- C. Analyze Student Learning
- D. Communication



2. Set Instructional Priorities

- A. SMARTER Goals
- B. Identify Root Cause
- C. Develop Priorities
- D. Select Priorities



3. Pay for Priorities

- A. Apply Cost Analysis
- B. Prioritize Expenditures



4. Implement Plan

- A. Strategic Financial Plan
- B. Plan of Action
- C. Allocate to School Sites
- D. Budget Document



5. Ensure Sustainability

- A. Implement and Evaluate

What do we mean by Strategic School Finance?

Strategic CFOs lead the financial management work...while also ensuring implementation of the district's strategic plan.

Uphold Legal & Compliant Use of Resources

Deliver Efficient & Effective Financial Services

Ensure Financial Sustainability

Align Resources to Strategies

- Foundational expectation of board and community
- Highest risk to get wrong
- Most visible CFO role in typical systems
- Possible to accomplish with finance team
- Imperative to transforming systems so all students succeed
- Biggest opportunity to get right
- Most visible CFO role in strategic systems
- Necessary to collaborate with other leaders and the public

Mindsets of the Strategic CFO



Mindsets of the Strategic CFO



Mindset #1: Look Forward

Look not just backward at historical spending patterns to identify problems or inefficiencies...

...But also **look forward** to anticipate major cost and revenue shifts, proactively solve challenges and ensure that the district can sustain investment in strategic priorities over time.

- How can you become better at predicting revenue and expenditure trends?
- How can you evaluate what your key investments require and make sure they are funded long-term?



- Revenue optimization is the process of analyzing individual revenue streams and accounts in order to maximize revenue realization for your organization.
- What is the plan?
 - Centralized vs Decentralized
- What are the efficiencies that can improve?
- What are the inefficiencies that can improve? Which should be eliminated?
- Optimized or efficient COA doesn't mean Cost allocating shared invoices.



What is Expenditure Optimization?

- Expenditure optimization is the process of analyzing individual expenditure categories and accounts in order to get the most benefit for your District.
- What is the plan?
 - Centralized vs Decentralized
- What are the efficiencies that can improve?
- What are the inefficiencies that can improve? Which should be eliminated?
- Optimized or efficient COA doesn't mean Cost allocating shared invoices.

Mindsets of the Strategic CFO



Mindset #2: Reach Outward

Reach not just inward to lead the finance team toward efficient financial management...

...But also **reach outward** to colleagues in other departments and community stakeholders to provide actionable data, build broader ownership over district resources, and ensure budgets reflect both district and community priorities.

- How are stakeholders and staff involved in key financial planning and decisions?
- How can you improve input mechanisms and feedback loops?

Mindsets of the Strategic CFO



Mindset #3: Focus on “How Well”

Reach not just on “how much” money is spent overall and on which major investments...

...But also **focus on “how well”** those resources are used to meet students’ diverse needs, address longstanding inequities, and ultimately improve student learning.

- What are some easy ways to evaluate the effectiveness of investments?
- How can you begin to stop doing things that aren't working?
- Who determines what isn't working?

Strategic Planning & School Finance



Strategic Planning & School Finance



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Strategic Planning & School Finance

- The district's strategic plan (or strategic goals, or instructional priorities) should guide the financial plan—not the other way around
- Don't get too hung up on having a perfect strategic plan
 - The plan has to be dynamic and responsive
- If you don't have a strategic plan: Start by at least identifying 2-4 strategic goals (what) and associated action steps (how) so you know what has to happen to achieve the goal

Strategic Planning & School Finance

"Strategic plans are necessary to focus district and school efforts on meaningful priorities, achievable goals, and proven/promising initiatives that will benefit the school community. " - Hanover Research

"The district-level responsibilities positive correlated with student achievement include:

Collaborative
goal-setting with
all relevant
stakeholders

Non-negotiable
goals for
achievement and
instruction

Board alignment
and support of
district goals

Monitoring goals
for achievement
and instruction

Use of resources
to support
achievement and
instruction goals

Source: Waters and Marzano¹⁵

Strategic Planning & School Finance

- You may be spending on things that are not aligned to your strategic plan
- Remember that it is MUCH easier to *not start* something than it is to stop doing something
- Test every new expenditure against your strategic priorities

Strategic Planning & School Finance

District of Choice

PILLAR 4 Operational Effectiveness

OUR PRIORITY

Make Los Angeles Unified the district of choice for families

WHY THIS MATTERS

All students deserve a world-class education close to their homes, with the programs and opportunities that can build trust and pride in schools in their local communities

STRATEGIES

- Establish and refine systems to recruit students to Los Angeles Unified schools through targeted, community-based initiatives
- Develop toolkits and resources for schools and District offices to support effective student recruitment efforts
- Improve data-informed decisions to expand learning options such as magnet, dual language, specialized career pathway programs, Schools for Advanced Studies, and virtual and independent learning options, based on student needs
- Update processes and policies to ensure that strengthening student enrollment and academic success is factored into all District work, including facilities and school choice
- Expand and streamline transportation opportunities to promote equitable access of District resources

MEASURES OF SUCCESS

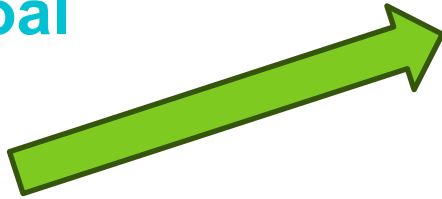
By 2026, we will:

- ✓ Increase the annual percentage of students enrolled who are new to the District to at least 16%
- ✓ Increase enrollment in thematic and choice learning options to at least 65% of all students
- ✓ Increase student ridership access for transportation services

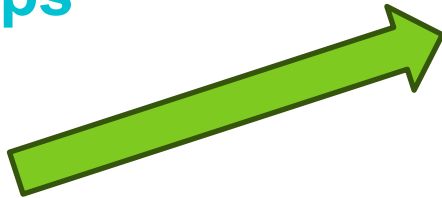
RESOURCES

- [Los Angeles Unified Choices](#)
- [Equitable Enrollment Task Force](#)
- [Student Integration Services](#)
- [Schools for Advanced Studies](#)
- [Los Angeles Unified Virtual Academy](#)
- [Transportation Services Division](#)

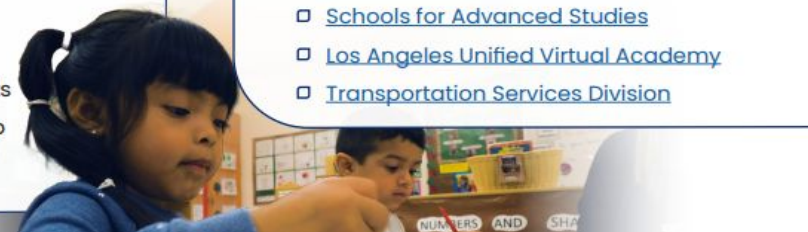
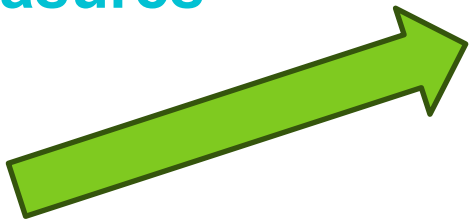
Goal



Action
Steps



Measures



Long-term Financial Planning



Long-Term Financial Planning



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Long-Term Financial Planning

- The purpose of the long-term financial plan is to anticipate coming changes to revenue and/or expenses in time to plan for and adjust to those changes while keeping focus on your strategic priorities
- Colorado requires districts to do a five-year budget forecast by statute
- This doesn't need to be complicated right away
 - The first step is to identify the basic trends you anticipate (up, down, stable)
 - You can work to quantify them over time—you don't have to eat the elephant all at once

Long-Term Financial Planning

- ❑ Instead of a 5-Yr Budget with a lot of inflation adjustments:
- ❑ Why not focus on long-term replacement plans?
 - ❑ Transportation
 - ❑ Yellow Fleet (School Buses)
 - ❑ White Fleet (Service Trucks)
 - ❑ Facilities
 - ❑ Categorized by area and ranked based on a rubric
 - ❑ Technology
 - ❑ District, Staff & Student
 - ❑ Curriculum
 - ❑ Curriculum Replacement Cycles
- ❑ Don't forget enrollment impacts on planning

Annual Budgeting



- Agree on Guiding Principles with your Board of Education

Guiding Principles

Should:

- Provide a broad **philosophy** that encompass the core values & vision of the organization as reflected in the district strategic plan
- Guides organization throughout its life in all circumstances, irrespective of changes in its goals, strategies, type of work or the top management
- Influence decision-making
 - Process to decide the going to do vs NOT going to do.
- 5-6 principles at the most



Annual Budgeting

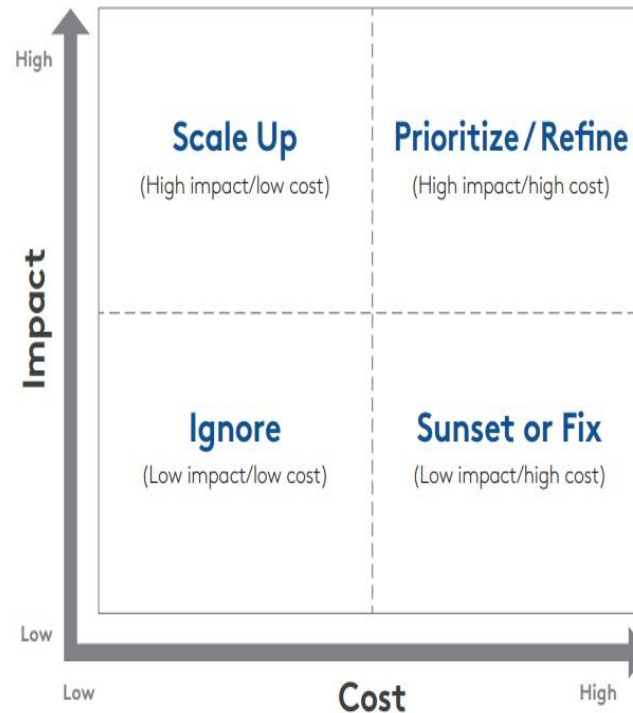
- In addition to spending on your priorities, evaluate effectiveness of your investments to decide which ones to keep / sunset
- A model to evaluate the effectiveness of investments is [Plan-Do-Study-Act \(PDSA\)](#)
- In applying PDSA, ask yourself three questions:
 - What are we trying to accomplish?
 - How will we know that a change is an improvement?
 - What changes can we make that will result in an improvement?



Annual Budgeting

- Once you know the impact of each investment, use a model like A-ROI to decide which ones to prioritize for continuation

Exhibit 4 ASSESSING INITIATIVES WITH A-ROI



A-ROI analysis
can help determine
what to prioritize,
scale up, or sunset

Source: DMGroup.

Annual Budgeting

“

The process you use to make decisions and build budgets unavoidably shapes the types of outcomes that are produced. Following the same old process is likely to produce the same old results.

- Pop Quiz: Does your budget cycle start with opening the current year's budget document and selecting "Save As...?" You are not alone.

Fund Balance & Revenue/ Expenditure Optimization



What is Fund Balance?

Technical Accounting Terms

- Fund Balance is your cumulative net income since the beginning of time. Annually, revenue less is “closed” to Fund Balance.
- $\text{Assets} = \text{Liabilities} + \text{Fund Balance}$
- Categories of Fund Balance
 - Restricted - Other Entity Mandates
 - Committed - BOE resolution
 - Assigned - Supt./BM decide with BOE notice
 - Unassigned - Flexible, the “Reserve”
- Audit [Sample](#)

Fund Balance Philosophy

- **Which students deserve these resources?**
 - Does the BOE value having Fund Balance Growth?
 - Are you maximizing annual resources on current students?
 - Are District's audited budget to actual variances usually favorable in both Revenue and Expense, thus growing Fund Balance?
- **How “Urgent” is your District’s Mission?**
 - Does the BOE value Fund Balance Growth more than expending resources on today’s students?
- **Spending Down Fund Balance can be a key Strategic decision to release some stored up resources to improve current conditions.**

Recurring Expense funded from Fund Balance

Non-Accounting & Accounting Terms

- Fund Balance is non-recurring, once spent it is gone!

	Year 1	Year 2	Year 3	Year 4
Unassigned Begin	3,000	2,000	1,000	0
Revenue	10,000	10,000	10,000	10,000
Expense	11,000	11,000	11,000	10,000
Surplus/ (Deficit)	(1,000)	(1,000)	(1,000)	0
Unassigned End	2,000	1,000	0	0

What is the Correct amount of Reserves?

Non-Accounting Terms

- Statute only requires 3% TABOR.
- Good Rule of Thumb is Unassigned FB should be 3 months, or 25%, of General Fund Expenses. Gives District plenty of Operating Flexibility
- OR what is needed for Cash Flow purposes to fund operations without outside funding.
- You may have a Fund Balance policy. Review it, adjust if necessary.

Fund Balance Characteristics

- Fund Balance either increases or decreases each year based on the difference between revenues and expenditures.
 - Surplus ($Rev > Exp$) adds to fund balance.
 - Deficit ($Rev < Exp$) reduces from fund balance.
- Fund Balance is **Non-Recurring**
 - *Best Practice-Don't spend non-recurring money on recurring expenses. OR* have a multi-year plan on how it the expense will be funded with recurring revenue.

Budgeting Fund Balance Categories

Appropriated Reserve Expense Accounts

- Communicate all District's available resources in the Budget, not what it is planning on being spent.
- Ensures that the District's Appropriation is statutorily correct.
 - *It's not an option to under appropriate the "Available" resources*
- No Expenses are ever booked to these accounts. Expense is booked to the proper Expenditure account.
- If Appropriated Reserve(i.e. Ending Funding Balance) is less than Beginning Fund Balance,
 - Expenses are Higher than Revenue
 - *Beginning Fund Balance Resolution is needed.*

Questions to ask when considering fund balance

- What is Student Count doing? (Growing/Declining/Steady)
- What is my budget to actual variance for Revenues?
- What is my budget to actual variance for Salaries & Benefits?
- What is my budget to actual variance for other Expenses?
- Are we saving up for major expenses (BEST/Construction)
- What is my budgeted recurring/non-recurring mismatch?
 - Do you know?
 - If spending FB items; Is there a plan for how deficit spending will end?
 - Do I have unusual non-recurring items included in my budget?



- If thinking about spending Fund Balance and have a High Reserve

Strategies to Deploy Fund Balance

Use more aggressive budgeting. Actual Revenues less than Actual Expenses will lower Fund Balance. **Stop Growing it!**

- Need to understand historical actual to budget variances.
- How up to date are the following replacement plan items:
 - Vehicle Fleet (yellow and white fleet)
 - Curriculum
 - Technology
 - Deferred Facility Maintenance
- Other non-recurring items:
 - Staff Bonuses (with or without PERA)
 - Professional Development
 - Facilities always has needs (carpet, paint, mowers, plows, small equip, building improvements, etc)
 - Special projects or events
- **What is the plan to not have ongoing deficits if spending on recurring expenses?**

Strategies to Increase Fund Balance

If Fund Balance is less than 15%, including TABOR

- If trying to increase Fund Balance
 - Revenues > Expenses will grow Fund Balance
- Budget pupil count conservatively
- Budget revenues conservatively
- Make sure staffing budgets are accurate
- Build cushion into expenditure budgets in order to mitigate surprises
- Capture the savings from staffing vacancies

Revenue & Expenditure Optimization



Revenue Optimization

What is Revenue Optimization?

Revenue optimization is the process of analyzing individual revenue streams and accounts in order to maximize revenue realization for your organization.

Revenue Optimization

Categories of Revenue Optimization:

- State Revenues - Total Program Funding
- State Revenues - Categoricals
- Federal Revenue - Grants
- Local Revenues
 - Specific Ownership Tax
 - Mill Levy Overrides
 - Other

Revenue Optimization

State Revenues:

- What about categoricals
 - Are you coding Special Education costs correctly to 3130?
 - High Cost Pool.
 - Are you getting your fair share of all categoricals?
 - Career Technical Education
 - ELPA
 - Transportation
 - Gifted & Talented

Revenue Optimization

Federal Revenues:

- Grants philosophy
- Cost of administration
- Indirect cost revenue for Grants
Fund or General Fund
- Avoiding fiscal “cliffs”
 - Recurring v Non-Recurring

Revenue Optimization

Local Revenues:

- Mill Levy Overrides (inflation adjusted)
- Investment Income (LGIPs?)
- Rental/Facility use revenue
 - Athletic Fields
 - Schools and buildings
- Fines, fees & charges (Do you meet FAPE guidelines)

Expenditure Optimization

What is Expenditure Optimization?

Expenditure optimization is the process of analyzing individual expenditure categories and accounts in order to get the most benefit for your District.

Wal-Mart Price Rollback:

- Wal-Mart is looking to save pennies every single day!
- What are your inefficiencies that you can improve on?

Expenditure Optimization

Categories of Expenditure Optimization:

- Compensation - Salaries
- Compensation - Benefits
- Purchased Services
- Supplies & Materials
- Capital Outlay
- Indirect Costs

Expenditure Optimization

Salaries:

- How accurately do you forecast salaries?
- How good is your position control?
- Do you examine your books for budget to actual variances
- Substitute Costs
- Substitute Policy for “classified” staff
- What about class “coverage” payments/stipends instead of hiring an additional staff member?
- Stipend Policies?
- Overtime rules?
- Scheduling classified staff
- What are your leave policies
 - Do you pay out unused leave?

Expenditure Optimization

Benefits:

- Always weigh Savings v. Employee Morale.
- Does District have a benefits broker?
- What does your District (ER vs EE) for Health, Dental, Vision, LTD, etc?
- How accurately do you forecast benefits?
- Have you considered alternative plan designs?
- What about HSA/HRA accounts?
 - HSA requires a high deductible plan
- Are there lower cost providers in your communities, like clinics?
- What about your Pharmacy benefit?
 - What's in your formulary?
 - What do you cover?
 - What are your co-pays?
 - Are you getting any pharmacy rebates?
- Benefits are non-taxable compensation

Expenditure Optimization

Purchased Services:

- What are your contract terms and conditions?
- How closely do you examine invoices for “hidden charges”?
- How often do you bid out services?
 - Have you tried to “piggyback” on other state and district contracts?
- Do you have annual renewal provisions?
- Do you have automatic inflation increases?
- Have you examined in-house vs outsourced services?
- How do you control contract usage?
 - Do you have rules for contacting legal counsel?
- Are your utilities optimized?

Expenditure Optimization

Supplies & Materials:

- Do you have preferred vendors?
- Do you RFP for certain vendors?
 - IDIQ (Indefinite Delivery/Indefinite Quantity) Purchase Orders
- Do you always get your sales tax exemption?

Charter School Admin Fees



Charter School Admin Fees



- Administrative Fees
 - 5%, subject to reconciliation
 - Reconciliation required by 9/30
- Mandatory Buybacks
 - Usually in reference to buildings, bonds, COPs
 - Student Information Systems (SIS)/Pupil Count Svcs
- Voluntary Buybacks
 - Can include all kinds of things
 - Security
 - Finance
 - Legal
 - Audit
 - etc



Charter School Admin Fees

22-30.5-111.5 5 II (b) In negotiating the charter school's funding, the charter school and the authorizing school district may, by negotiation, allow the school district to retain the actual amount of the charter school's per pupil share of the central administrative overhead costs for services actually provided to the charter school, **up to five percent** of the amount specified in subparagraph (I) of paragraph (a) of this subsection (5).

22-30.5-111.7 (3)(b) **If the state board receives a request for a determination of whether the authorizing school district has improperly withheld any portion of the amount due to a charter school, the state board must direct the department to review the terms of the charter contract and the financial information of the charter school and the authorizing school district and report to the state board its findings regarding whether the authorizing school district improperly withheld any portion of the amount due to the charter school.** The department shall request from the authorizing school district and the charter school all information necessary to make the findings, including but not limited to audited financial data. The authorizing school district and the charter school must provide the requested information as soon as possible following the request, but in no event later than thirty days after the annual financial audit is completed. The department must forward its report to the state board within sixty days after receiving all of the requested information from the authorizing school district and the charter school.

Charter School Admin Fees



22-30.5-112 (a.4)(I) **Within ninety days after the end of each budget year, each school district shall provide to each charter school of the school district an itemized accounting of all of the charter school's central administrative overhead costs for the applicable budget year.** The actual central administrative overhead costs must be the amount charged to the charter school. The school district and the charter school shall reconcile any difference, within the limitations specified in section 22-30.5-111.5 (4) (b), (5) (b), or (6), between the amount the school district initially charged to the charter school and the actual cost, and the owed party shall receive appropriate reimbursement.

22-30.5-112 (III) If either party disputes an itemized accounting provided pursuant to subparagraphs (I) and (II) of this paragraph (a.4), any charges included in an accounting, or charges to either party, that party is entitled to request a third-party review at the requesting party's expense. The review shall be conducted by the department, and the department's determination shall be final.

Charter School Admin Fees



(a.5) As used in this subsection (2):

(I) "Central administrative overhead costs" means indirect costs incurred in providing:

(A) Services listed under the heading of support services - general administration in the school district chart of accounts as specified by rule of the state board; and

(B) Salaries and benefits for administrative job classifications listed under the headings of support services - business and support services - central in the school district chart of accounts as specified by rule of the state board.



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Appendix K-2: Charter School Allocations

§ 22-30.5-112, C.R.S.

This appendix is not designed to interpret the requirements of the charter contract or the statute for allocations to charters. The intent of this appendix is to provide a general account coding example based on simple assumptions.

Allocations to Charter Schools must be recorded as described below so that CDE can identify these transactions in the Data Pipeline data collection. This recording requirement is not intended to dictate treatment of charter school allocations on the district financial statements. Proper treatment of charter school allocations on financial statements is the responsibility of the district, often with input from the independent auditor.

Central Administrative Overhead Costs

Centralized administrative overhead costs means indirect costs incurred in providing

- (A) general administration support services, Programs 23xx, and
- (B) business and central support services, Programs 25xx and 28xx, limited to administration salaries and benefits, Objects 01xx and 02xx, Job class 1xx.

Note the programs, objects and job classes used in the allocation calculations may include all or a portion of the codes within each series, regardless of whether the code is bolded or not.



Charter School Admin Fees



A district with an enrollment of more than 500 students, may choose to withhold the charter school's per pupil share of central administrative overhead costs for services actually provided to the charter school, up to five percent (5%) of the charter school's per pupil revenue allocation.

A district with an enrollment of 500 or fewer students, may choose to withhold the actual amount of the charter school's per pupil share of central administrative overhead costs incurred by the school district, based on audited figures, or 15% of the charter school's per pupil revenue allocation.

Allocation example assumptions

1. **10,000** District Pupil FTE
2. **\$8,400** District per pupil revenue (PPR)
3. **500** Charter School Pupil FTE

Central administrative overhead costs for services actually provided to the charter school

- (A) **\$2,500,000** for general administration support services, Program 23xx, all object codes, and
- (B) **\$1,500,000** for business, Program 25xx, and central, Program 28xx, support services limited to salaries (Object 01xx) and benefits (Object 02xx) for administrative job classes (1xx).

Questions?
Thank you!

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