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Basics of School District Budgeting – October 18, 2017

I. Pertinent NH Statutes:

A. **RSA 32:3** – Definitions. In this chapter:

I. "**Appropriate**" means to set apart from the public revenue of a municipality **a certain sum for a specified purpose** and to authorize the expenditure of that sum for that purpose.

- Key aspect: a certain sum for a specific purpose.
- To “appropriate” means to take action – it’s a verb
- “To raise and appropriate...” – “to raise” relates to the source of the funds.

II. "**Appropriation**" means an amount of **money appropriated for a specified purpose** by the legislative body.

- Key aspect: the noun of “to appropriate” – it’s the money that has been appropriated.
- It’s the authorization to spend money, not the actually spending of money.

III. "**Budget**" means a **statement of recommended appropriations and anticipated revenues** submitted to the legislative body by the budget committee, or the governing body if there is no budget committee, as an attachment to, and as part of the warrant for, an annual or special meeting.

- Key aspect: recommended spending.
- Key aspect: *anticipated* revenues – need not be exact.

V. "**Purpose**" means **a goal or aim to be accomplished through the expenditure of public funds.** In addition, as used in RSA 32:8 and RSA 32:10, I(e), concerning the limitation on expenditures, a line on the budget form posted with the warrant, or form submitted to the department of revenue administration, or an appropriation contained in a special warrant article, shall be considered a single "purpose."

- Key aspect: what is the goal or aim of the appropriation? Look at the NHDRA function codes (to be discussed later).
- Policy decision initially proposed by the school board and either accepted or rejected by the voters.
- What is a proper or suitable purpose?
 - RSA 198:4 – "...for the support of the public schools, for the purchase of textbooks, scholars' supplies, flags and appurtenances, for the payment of the tuition of the pupils in the district in high schools and academies in accordance with law, and for the payment of all other statutory obligations of the district."

B. **RSA 32:4** – Estimate of Expenditures and Revenues.

All municipal officers, administrative officials and department heads, including officers of such self-sustaining departments as water, sewer, and electric departments, **shall prepare statements of estimated expenditures and revenues for the ensuing fiscal year**, and shall submit such statements to their respective governing bodies, at such times and in such detail as the governing body may require.

- Key aspects: estimated expenditures and estimated revenues.

C. **RSA 32:5 – Budget Preparation.**

III. All appropriations recommended shall be stipulated on a "gross" basis, showing anticipated revenues from all sources, including grants, gifts, bequests, and bond issues, which shall be shown as offsetting revenues to appropriations affected. The

budget shall be prepared according to rules adopted by the commissioner of revenue administration under RSA 541-A, relative to the required forms and information to be submitted for recommended appropriations and anticipated revenues for each town or district.

- “Gross basis”
 - Budget must show anticipated revenue from all sources – not just taxes.
 - Revenues not shown cannot be spent.
 - Include total amount in the “raise and appropriate” clauses of articles.

II. Getting Started:

A. Timeline:

- (1) See NHDRA Annual Meeting Timeline documents
- (2) September/October:
 - Look back and look forward
 - Review projections
 - Enrollment funding/aid projections
 - Collective bargaining
- (3) October-December:
 - Committee meetings/budget committee
 - Finish collective bargaining
 - Finish other committee work – facilities, technology, etc.
 - Finalize estimates – enrollment, aid programs, etc.
- (4) January
 - Budget hearings
 - Bond hearings
 - Budget committee presents budget to school board for posting
 - Petitioned warrant articles

III. Questions for School Boards to Ask to Properly Prepare:

A. Important Considerations and Questions to Guide the Process.

- (1) Where did the district go over or under budget on a particular line item? Can you explain why?
- (2) Did the Board transfer any appropriations into another line item budget during the year? If so, why?
- (3) What effect did that have on the “department” or “purpose” that ran over-budget? What effect did that have on the “purpose” than the money was transferred from?
- (4) Were there unexpected increases or decreases in your expenses or revenues?
- (5) Were there one-time events that changed things, or has something changed that will affect future years as well?
- (6) Does the district have a strategic plan or capital improvement plan? If so, what’s on tap? What’s on deck?
- (7) What worked in last year’s budget and why?
- (8) What are your fixed costs? These are the things you can’t change, or at least not easily. These may include utilities, debt, and contracts.
- (9) What are your personnel, equipment, and capital needs? Why do you need these?
- (10) Separate the “needs” from the “wants.” If there is a wish list for projects, new hires, raises or bonuses, include them, but be able to identify what you can live without if you are forced to make choices.
- (11) At the same time, determine what will happen if this budget is reduced or portions of it are removed. What are the real-world consequences if these new programs, equipment, improvements, or personnel are not approved? Can any of them wait a year? Why or why not?
- (12) What revenue is needed to support this budget? Can you raise any of it from non-tax sources?
- (13) Are any of the items in your budget things voters have been requesting?
- (14) If you are proposing contributions to a capital reserve or trust fund for a future purchase or project, can you explain what the ultimate goal is and why saving for it now instead of borrowing for it later makes sense?

B. Other Considerations and Factors.

- History (trends, experiences over time, where things may be headed)
- Contractual obligations the district must meet (CBA; health insurance; leases)
- State or federal requirements the district has no choice but to meet (special education; contributions to state retirement)
- Efforts that your district has or is making to reduce costs and increase efficiency
- Revenue sources (existing as well as anything new you are suggesting)
- Costs that can be estimated but may fluctuate (gasoline, heating oil, etc.)

C. What Services or Budget Categories are Significant Budget Drivers?

What are the major budget categories for school districts? While specific budget lines and items vary district-to-district, there are broad general categories that apply to most schools.

- Transportation – buses and drivers to transport students.
- Facilities – to ensure students attend schools that are safe and well maintained.
- Energy – the school is lit during the day, heated in the winter and cooled in the summer.
- Health and Safety – the school nurse cares for an ill student, and security measures keep staff and students safe.
- Instruction – students have qualified teachers, teachers have instructional aides, and classrooms have supplies.
- Curriculum and Staff Development – curriculum, training and instructional support to ensure teachers are able to provide students with necessary knowledge and skills.
- Food Services – nutritious, affordable breakfast and lunch.
- Library Services – the library staff provide research assistance and resources.
- Counseling Services – counselors for testing prep, college prep, drug/alcohol abuse programs, and supporting family needs in seeking outside counseling.

- School Leadership and Support – principal, assistant principals and administrative support staff.
- Note: Look at the NHDRA source codes and function codes.

D. PART Rev 1107 – CLASSIFICATION OF EXPENDITURES BY FUNCTION

- NH Department of Revenue Administration Rule Rev 1107
- Rev 1107.01. Function Code 1000: **Instruction.** Expenditures related to instruction shall include activities dealing directly with the teaching of students or the interaction between teacher and students, classified further by program as follows...
- Rev 1107.02. Function Code 2000: **Support Services.** Function code 2100, support services for students, classification shall be used for activities designed to assess and improve the well-being of students and to supplement the teaching process as follows...
- Rev 1107.03 Function Code 3000: **Operation of Non-instructional Services.** Operation of non-instructional services, classification shall be used for those activities concerned with providing non-instructional services to students, staff or the community, further classified as follows...
- Rev 1107.04 Function Code 4000: **Facilities Acquisition and Construction Services.** Facilities acquisition and construction services classification shall be used for activities concerned with...

E. PART Rev 1108 – CLASSIFICATION OF EXPENDITURES BY OBJECT

- NH Department of Revenue Administration Rule Rev 1108
- Rev 1101.18 "Object" means a description of the service or commodity obtained as a result of a specific expenditure.
- Rev 1108.01 Object Code 100: Personal Services – Salaries.
- Rev 1108.02 Object Code 200: Personal Services – Employee Benefits.
- Rev 1108.03 Object Code 300: Purchased Professional and Technical Services.
- Rev 1108.04 Object Code 400: Purchased Property Services.
- Rev 1108.05 Object Code 500: Other Purchased Services.

- Rev 1108.06 Object Code 600: Supplies and Materials.
- Rev 1108.07 Object Code 700: Property.
- Rev 1108.08 Object Code 800: Other Objects.
- Rev 1108.09 Object Code 900: Other Uses of Funds.

IV. Miscellaneous Considerations:

1. The planning and budgeting process begins with mobilizing key stakeholders, gathering information on academic performance and cost structure, and establishing principles and policies to guide the budget process.
2. Develop principles and policies to guide the budget process. Budget principles and policies formalize standards and fundamental values that should govern the budgeting process.
3. Analyze current levels of student learning. The current state of academic performance must be assessed to determine what course of action to take.
4. Set Instructional Priorities. 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, as well as presenting a budget document.
5. Apply cost analysis to the budget process. A cost analysis and staffing analysis are essential to identifying how the district might allocate its limited resources.

V. Various SB2 Provisions/Default Budget:

- A. Default Budget – RSA 40:13, IX(b). “Default budget” as used in this subdivision means:
- (1) the amount of the **same appropriations as contained in the operating budget authorized for the previous year...**
 - (2) **...reduced and increased, as the case may be, by debt service, contracts, and other obligations previously incurred or mandated by law...**
 - (3) **...and reduced by one-time expenditures** contained in the operating budget.
 - (4) For the purposes of this paragraph, **one-time expenditures shall be appropriations not likely to recur in the succeeding budget, as determined by the governing body**, unless the provisions of RSA 40:14-b are adopted, of the local political subdivision.
- B. This definition is somewhat flexible and is intended to establish guidelines by which the school district will work. **Essentially, the default budget “freezes” at the previous year’s level, except for the amount which the district is legally obligated to pay or which were one-time expenses.**

Remember that the default budget relates to **the “amount” of the money appropriated for that purpose the previous year.**

The other important aspect of the default budget is that it is limited not only to the same amount of the appropriations of the previous year’s operating budget, **but also to those purposes for which appropriations were made in the previous year’s operating budget.** New budget line items cannot be added because they were not included in the appropriations contained in the previous year’s operating budget.

Determination of the default budget, including one-time expenditures, rests with the school board and cannot be altered by the annual meeting/deliberative session. However, the determination of the default budget may be delegated to the budget committee (if there is one) per RSA 40:14-b.

VI. Budget Committees – RSA 32:14 – RSA 32:24:

A. **RSA 32:16 Duties and Authority of the Budget Committee.** – In any town which has adopted the provisions of this subdivision, the budget committee shall have the following duties and responsibilities:

I. **To prepare the budget as provided in RSA 32:5, and if authorized under RSA 40:14-b, a default budget under RSA 40:13, IX(b) for submission to each annual or special meeting** of the voters of the municipality, and, if the municipality is a town, the budgets of any school district or village district wholly within the town, unless the warrant for such meeting does not propose any appropriation.

II. **To confer with the governing body or bodies and with other officers, department heads and other officials, relative to estimated costs, revenues anticipated, and services performed to the extent deemed necessary by the budget committee. It shall be the duty of all such officers and other persons to furnish such pertinent information to the budget committee.**

III. **To conduct the public hearings required under RSA 32:5, I.**

IV. To forward copies of the final budgets to the clerk or clerks, as required by RSA 32:5, VI, and, in addition, to deliver 2 copies of such budgets and recommendations upon special warrant articles to the respective governing body or bodies at least 20 days before the date set for the annual or special meeting, to be posted with the warrant.

B. **RSA 32:17 Duties of Governing Body and Other Officials.** – The governing bodies of municipalities adopting this subdivision, or of districts which are wholly within towns adopting this subdivision, **shall review the statements submitted to them under RSA 32:4 and shall submit their own recommendations to the budget committee**, together with all information necessary for the preparation of the annual budget, including each purpose for which an appropriation is sought and each item of anticipated revenue, at such time as the budget committee shall fix. In the case of a special meeting calling for the appropriation of money, the governing body shall submit such information not later than 5 days prior to the required public hearing. Department heads and other officers shall submit their departmental statements of estimated expenditures and receipts to the budget committee, if requested.

C. **RSA 32:18 Limitation of Appropriations.** – In any municipality electing this subdivision, or any district wholly within a town electing this subdivision, **the total amount appropriated at any annual meeting shall not exceed by more than 10 percent the total amount recommended by the budget committee...**

D. School Board and Budget Committee Relationship:

- Meet early on with the budget committee to get a sense of its expectations.
- Ask to develop “ground rules” for communications between the budget committee and the school board/district staff:
 1. One liaison from the budget committee to be the point of contact with the district.
 2. Requests for documents are made in advance to give school district staff adequate time to gather documents/information.
 3. Requests are made only by the budget committee liaison.
 4. Schedule meetings well in advance if the budget committee is going to request district staff be present

E. Other miscellaneous considerations:

- For SB2 districts, the 10% limitation applies to the budget committee’s initial recommendation. The voters may amend the budget at the deliberative session, but such amendments may not exceed the 10% cap.
- 10% limitation is calculated via total appropriations recommended by the budget committee, less “fixed charges” – bonds, for example.
- Collective Bargaining Agreement cost items **not recommended by the budget committee** are automatically exempt from the 10% rule.
- Bond articles **not recommended by the budget committee** are exempt from the 10% rule if, and only if, the warrant article contains the “magic language” contained in RSA 32:18-a.
 - “Passage of this article shall override the 10 percent limitation imposed on this appropriation due to the non-recommendation of the budget committee.”

VII. Random Q&A:

- Q1. Which appropriation articles must be disclosed and/or discussed at the public hearings on the proposed budget?
- A1. All of them. At least one public hearing regarding proposed appropriations must be held before the annual meeting. RSA 32:5, II. After the hearing, no new purpose or amount can be added to the proposed budget before the warrant is posted unless that purpose or amount was “discussed or disclosed” at that hearing, or unless a further hearing is held. The hearing requirement applies to the proposed operating budget as well as any petitioned or governing body warrant articles that propose appropriations. This statute prevents the budget committee or governing body from adding new purposes to, or increasing amounts in, the proposed budget. Of course, the legislative body (the voters) may increase or decrease proposed amounts or delete purposes of appropriations at the meeting, subject to certain limitations.
- Q2. Whose budget is presented to voters, the budget committee’s or the governing body’s?
- A2. In a school district with an official budget committee, the budget committee’s recommended budget is presented to voters. In all other towns and districts, the governing body’s budget is presented.
- Q3. How specific should an appropriation be?
- A3. When preparing the budget or separate warrant articles, always be sure the wording of an appropriation is clear enough to let the governing body know how much flexibility it has. The degree of specificity is up to the school board or budget committee. How much freedom the school board has depends on how specific the purposes in the warrant article or on the budget form are worded.

As a general rule, a warrant article should be drafted to be specific enough to set the policy but broad enough to allow the school board discretion on the details of carrying out that policy. The dollar amount must always be specified, but it serves as an upper limit, not as a mandate for spending the entire amount.