

February 7, 1996
ILR 96-B

Sen. Stephen J. Rees, Senate Chair
Rep. Jeff Alexander, House Chair
Members of the Public Education Joint Appropriations Subcommittee
State Capitol Bldg.
Salt Lake City UT 84114

Subject: Centennial School Program Surplus Balance

Dear Legislators:

The Centennial School program in the Utah State Office of Education (USOE) is presently carrying a surplus balance of \$2.6 million after allocating all needed monies through fiscal year 1996. With the appropriation process underway, we believe that the fiscal year 1997 requested appropriation should be adjusted downward and funded at the level of \$1.076 million, with the intent that the \$2.6 million balance should remain in the Centennial School program.

We reviewed the appropriations and expenditures (awards) made to schools over the three years of the program. We found that the total amount of awards given each year was significantly less than the appropriation. According to the USOE staff, unobligated balances remaining at the end of the fiscal year are transferred out of the Centennial School account into the Uniform School Fund's carry-forward balance. Therefore, to use up as much of the balance as possible before the end of fiscal years 1994 and 1995, notifications of awards were sent to newly chosen schools for the upcoming fiscal year. The Centennial School program coordinator referred to this as "forward funding" new schools. The two fiscal years' fund balances were thus depleted to \$28,440 and \$19,215, respectively, which were then transferred into the carry-forward balance at the end of the fiscal year. Because this practice used the surplus from the prior year to fund many new awards for the coming year, it reduced the amount of newly appropriated funds used. Thus, the program has now accumulated the \$2.6 million balance.

The Centennial School law is part of the Strategic Planning Act for Public Education (**Utah Code 53A-1a**). Schools submit a grant application that details a plan for use of the funds in specific areas along with a history of already existing education reform efforts; grants are given to successful applicants as judged by a selection committee. The law provides that awards will be given to up to 100 schools each year, with two successive years' participation allowed, for a

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total of three years in the program. Funding is based on a formula that gives \$5,000 plus \$20 per student enrolled as of October 1 the preceding year. Presently, second year funding is 66 percent of the original award and third year funding is 33 percent of the original award.

Funding Has Been Higher Than Needed

Since fiscal year 1994, \$8,915,807, or 77.2 percent of the total appropriation has been awarded to schools for all levels of funding. The remaining, unused amount is \$2,638,593, with \$47,952 of that having been transferred to the Uniform School Fund's carry-forward balance. This leaves a present Centennial School program balance of \$2,590,641. Funding for the program is summarized in the figure below.

| Figure I | | | | |
|---|-----------------------|--------------------|-------------------------------|----------------|
| Appropriations, Awards, and Balances for Centennial School Funds | | | | |
| Fiscal Years 1994-96 | | | | |
| Fiscal Year | Appropriations | Awards | To Uniform School Fund | Balance |
| 1994 | \$2,600,000 | \$2,571,560* | \$28,440 | \$0 |
| 1995 | 4,353,200 | 4,333,688** | 19,512 | 0 |
| 1996 | <u>4,601,200</u> | <u>2,010,559</u> | <u>N/A</u> | \$2,590,641 |
| Totals | \$11,554,400 | \$8,915,807 | \$47,952 | |
| * Includes \$397,980 in "forward funded" awards to FY95 schools | | | | |
| ** Includes \$1,387,960 in "forward funded" awards to FY96 schools | | | | |

The accumulation of the \$2.6 million surplus balance of Centennial School monies has occurred for two primary reasons. First, funding has been estimated and appropriated at a higher level than has been needed. Second, although the program can fund up to 100 new schools each year, fewer than 100 awards have been made to new schools each year. Thus, while the appropriation has provided ample funds for 100 new schools each year (for a total of 300), there are only 262 Centennial Schools at present.

While the requested appropriation for new Centennial School funding was based on an estimated average award of \$26,000, the actual average award to new schools over three years is

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\$20,960, a difference of \$5,040 per school. Thus, the appropriation has been given at a higher level than needed based on the actual average award.

In addition to the fact that awards have been lower than expected, the number of schools granted Centennial School status has been less than 100 each year. Although more than 100 applications were received each year, the selection committee felt that less than 100 schools successfully met the selection criteria. The highest level of awards occurred the first year, with 98 schools granted Centennial School status. The second year, 93 new schools were named Centennial Schools, while in fiscal year 1996, only 72 schools were granted Centennial School status. Ninety-seven of the 98 schools from fiscal year 1994 and all 93 of the fiscal year 1995 schools are still participating, so there are currently 262 Centennial Schools receiving funds out of a possible 300. However, because the law indicates that up to 100 schools can be funded each year, the program coordinator indicated that they planned on funding 100 schools each year, and their funding request reflected that intent.

Legislature Should Consider Options for Using the \$2.6 Million

Because there are \$2.6 million in surplus funds in the Centennial School program (22.4 percent of the total appropriation over three years), and because there is a history of remaining funds being transferred out of the program, we believe that the Legislature should indicate its intent regarding the existing balance. Although the program coordinator has kept as much of the funding as possible in Centennial School programs by his forward funding effort, the program may soon reach a point where a large balance will remain even if all levels of schools are forward funded from the remaining balance just prior to the close of the fiscal year.

If it is the intent of the Legislature that remaining Centennial School funds shall be transferred into the Uniform School Fund's carry-forward balance to be used for a variety of projects or needs, the balance can remain to be used up as much as possible by the Centennial School program, with ending balances subject to the transfer. However, if the Legislature intends to designate other uses of these surplus funds, steps should be taken during the current appropriation process to deal with the balance and future appropriation levels.

According to our calculations, funding 100 new schools plus funding second and third year schools requires a fiscal year 1997 appropriation of \$3,667,000. That is, the appropriation would be based on the average first year award times 100 new schools, plus 66 percent of the actual awards for the 72 schools entering their second year, plus 33 percent of the actual awards for the 93 schools entering their third year.

We recommend that this level of funding be provided by reducing the requested appropriation from \$3.6 million to \$1,076,000. Fiscal year 1997 needs would be met by

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combining the existing balance of \$2.6 million with this reduced appropriation. We suggest that the Legislature consider adding intent language that prevents the \$2.6 million balance from being transferred out of the Centennial School program at the end of fiscal year 1996, ensuring that it remains available for fiscal year 1997 awards.

We hope this letter provides you with the information you need on this issue. If you have any further questions, please feel free to contact me.

Sincerely,

Wayne L. Welsh
Legislative Auditor General

WLW:LSM/lm