

June 30, 1998

Senator Robert Montgomery, Chair
Representative Bill Wright, Co-Chair
Members of the Public Education Appropriations Subcommittee
State Capitol Bldg
Salt Lake City UT 84114

Subject: **State Office of Education Discretionary Funds** (Report 98-05)

Dear Legislators:

As you requested, we have completed a survey of discretionary fund balances and expenditures within the State Office of Education (SOE). Based on our limited review, we believe there is justification for the existence of these discretionary funds and conclude that they are being put to reasonable and appropriate use. Therefore, we do not see a need to conduct further work in this area.

Following are the two basic findings of our review:

- ◆ **Non-lapsing Balances in the Minimum School Program Are Used for Appropriate Educational Purposes.** Unused state appropriations remaining in the Minimum School Program at fiscal year end are subsequently used by the SOE for legitimate purposes such as compensating school districts for lost revenues, student transportation, and funding curriculum-related projects. In fact, the majority of these remaining balances---which average over \$17 million annually---have been returned to the Uniform School Fund over the last five years.
- ◆ **Other Discretionary Funds Outside of the Minimum School Program Are Also Used Appropriately.** Excess funds from within programs run out of the SOE central office are transferred into a single discretionary account and are used to fund various projects and needs as approved by the state superintendent. These funds---which average over \$800,000 annually---are used for education-related purposes such as

software development costs to support school districts, educational communication materials, and personnel expenses.

This survey was requested by the Public Education Appropriations Subcommittee and also driven by a desire for more information about these discretionary funds by the Legislative Fiscal Analyst. We primarily reviewed non-lapsing balances in the Minimum School Program (MSP) which is financed by the Uniform School Fund (USF) and by local property tax revenues. The USF is held through the State Treasury and is derived from individual income and corporate franchise taxes. It is established by the Utah Constitution as the source of state financing for public education and it accounts for about 75% of the entire \$2 billion public education budget. The MSP is the core component of the public education system and it comprises all basic and special purpose programs for kindergarten, elementary, and secondary schools. It totals about \$1.6 billion and is by far the largest program in the public education budget.

Non-lapsing Balances in the Minimum School Program Are Used Appropriately

We conducted a review of the non-lapsing or carry-forward balances in the MSP, which average about \$17 million annually. In summary, we found that:

- ▶ **Carry-forward Money Is Used for Appropriate Educational Purposes**
- ▶ **State Superintendent Has the Authority to Use Carry-forward Money**
- ▶ **Majority of Carry-forward Money Is Not Used but Rather Is Returned to the Uniform School Fund**
- ▶ **Carry-forward Balances Result from Unused State Dollars in the MSP and Are Relatively Small**

Carry-forward Money Is Used for Various Educational Purposes

A review of disbursements of MSP carry-forward balances shows appropriate use of the money. Below are some examples of how the money is used:

- **Property Tax Protests** - One of the primary uses of carry-forward money has been to compensate school districts for revenues lost in property tax protests. When commercial property tax valuations are appealed and upheld, taxed entities must be reimbursed the difference from what they have already paid, and part of this must come from the school district. MSP carry-forward money is used to make the school district whole for these losses of revenue from the basic levy applied by the local taxing authority. Approximately 53% of all carry-forward disbursements to a sample of school districts were made for this

purpose with individual payments ranging from \$174 to nearly \$1.7 million.

- **School Construction Loan Fund** - Historically, another use of MSP carry-forward money has been to support the school construction revolving loan fund which districts can use as a low-interest borrowing source for capital projects. In the last five years there have been two transfers totaling \$8 million to this fund. However, the SOE no longer has authority to transfer carry-forward money to this fund because of a change in education law so it is no longer being done.
- **Legislatively Directed Uses** - In some years the Legislature has directed the SOE to use excess MSP money for specific purposes as long as sufficient unobligated balances were available. For example, in 1995 the Legislature requested that a \$4 million supplemental allocation come from MSP carry-forward balances to fund district transportation needs (this transfer was actually made in early fiscal year 1996). Also, in the 1996 general session the Legislature directed the SOE to transfer \$1.5 million in unexpended MSP balances to Washington School District for capital facilities.
- **Other Programs** - A relatively small amount of carry-forward money is also used to fund other MSP needs and projects. According to the superintendent, money that is appropriated for specific uses is not always disbursed by the SOE in the same fiscal year. While the money is ultimately sent out for its intended purpose, it has technically become part of the carry-forward balance because of the change to a new fiscal year. In our sample, the use of carry-forward money for specifically designated programs only accounted for about 5% of all disbursements. For example, one district received \$137,000 at the beginning of a school year to fund Experimental/Developmental Programs in specific schools relating to art, science, and reading. Our contact with district and school personnel verified the receipt of this money and the nature of the programs for which it was used. While the money used to fund these programs was from carry-forward balances, there was no evidence on any of the SOE documents we reviewed that the money was the result of unspent dollars carried forward from the Experimental/Developmental category in the MSP. Since money loses its identity once it becomes part of the carry-forward balance, it is not tracked to be used for a specific purpose. As mentioned earlier, we do not have any concern with the final use of carry-forward money in this or any other instance we reviewed. However, we believe the SOE should be more clear in its internal accounting of the program areas from which money is being carried forward, or see that unspent money that is designated for use in specific programs doesn't become part of the general carry-forward balance.

State Superintendent Has Authority to Use MSP Carry-forward Money

The law gives the State Superintendent of Public Instruction authority to distribute carry-

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forward balances to districts and programs as long as it remains within the MSP. **Utah Code 53A-17A-105 (2-3)** states the following:

“If the number of weighted pupil units in a program is overestimated in Section 53A-17a-104, the state superintendent of public instruction shall either increase the amount paid in that program per weighted pupil unit or transfer the unused amount in that program to another program included in the minimum school program. If surplus funds are transferred to another program, the state superintendent, if he determines certain districts have greater need for additional funds, may designate the districts as well as the programs to which the transferred funds will be allocated.”

Because of the allowance made by this law, we see no problems with the manner in which MSP carry-forward money has been used.

Carry-forward Money Also Returns to the Uniform School Fund

Beyond the actual disbursement of carry-forward money to school districts for educational needs, a significant amount of the balances have been lapsed back to the USF which is their original source. For example, the following amounts have been (or will be) returned at either the request of the Legislature or at the initiative of the SOE:

- FY 1995 - \$10,200,101
- FY 1997 - \$14,000,000
- FY 1998 - \$15,450,000

In total, almost \$40 million of the \$63 million that has accrued in carry-forward funds over the last five years has (or will be) lapsed to the USF, which is about 63% of the total accumulation. Consequently, the majority of carry-forward revenues are not spent but are returned to the USF for re-appropriation to public education. (No money was returned to the USF in FY 1996 because so much was used for other projects. Over \$13 million was disbursed that year, including \$5 million for the school construction loan fund, \$4 million in supplemental allocation for pupil transportation, and several million in tax protests including over \$2 million alone to one school district.)

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**Carry-forward Balances Represent Unused
State Money And Are Relatively Small**

Carry-forward balances accumulate when there is leftover state money within MSP programs at the end of each fiscal year, and whatever amounts are unspent simply continue as part of the balances (unless they are lapsed back to the USF). Although carry-forward balances have grown over the last five years, they are relatively small in comparison to the total MSP budget as shown in Figure I.

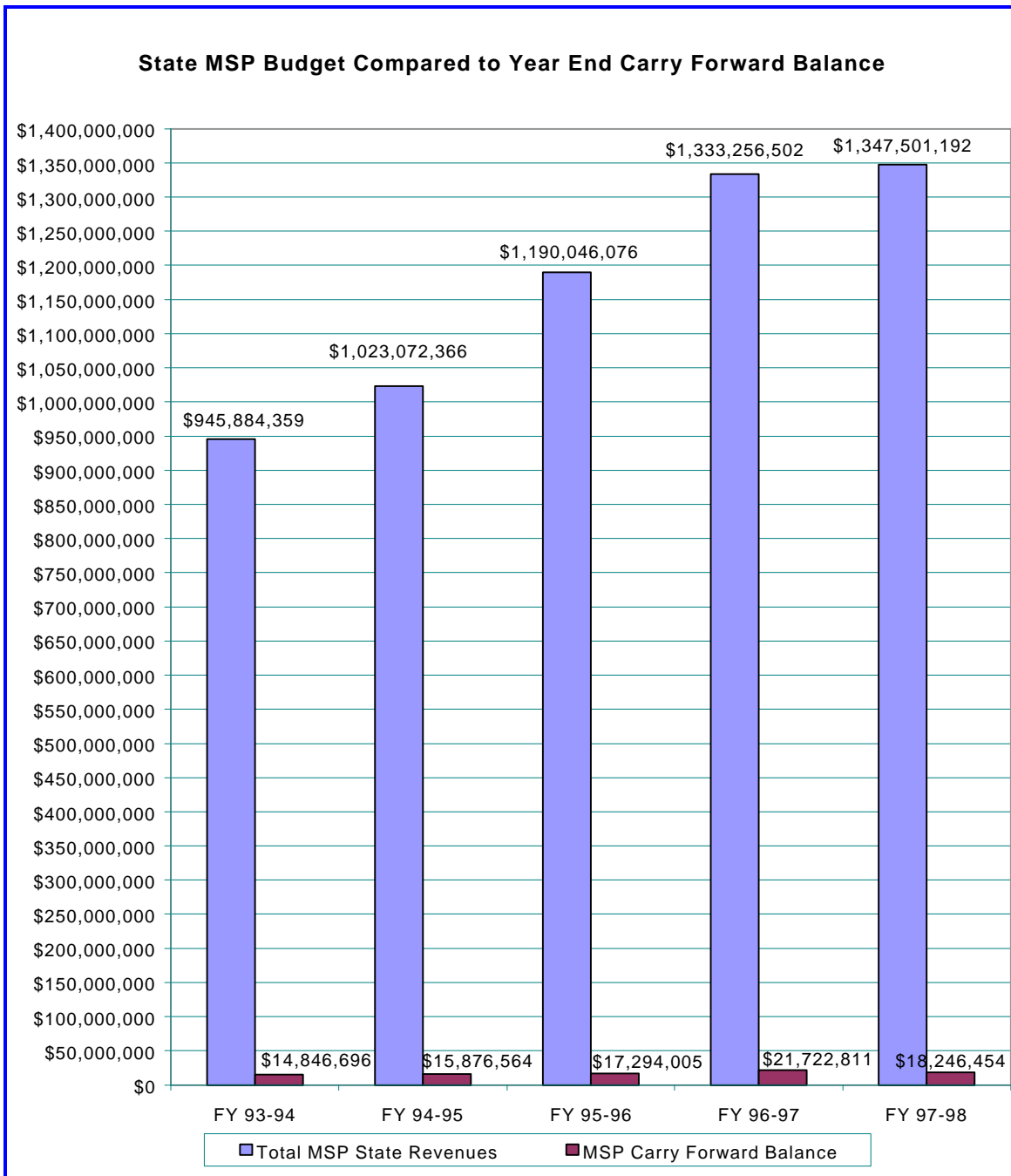


Figure I - Shows amount of carry-forward balance from state MSP budget. These balances have averaged about \$17 million over the last five years but only average 1.5% of all state dollars that go into the MSP.

There are at least three factors that contribute to surplus dollars in the MSP:

- 1. Excess Local Revenues** - When local property tax revenues (which help fund educational programs) exceed expectations, less state money is needed to make up the total value of the weighted pupil unit. Local tax collections have been higher than anticipated during the last few years with the steady increase in property values. As a result, the portion generated for education has exceeded appropriated or estimated amounts in each of the last six years by an average of about \$8 million. In concept, this is \$8 million less in state money that is needed each year to fund the value of the weighted pupil unit, and it may wind up as part of the MSP carry-forward balance.

Utah Code 53A-17A-105 (6) specifies that state contributions to school programs decrease when local contributions are underestimated or exceed expectations:

“If local contributions from the basic tax rate for operation and maintenance programs are underestimated...the state contribution is decreased so the total school program cost for operation and maintenance programs does not exceed the total estimated contributions to school districts for all programs under Subsection 53A-17a-104(2)...”

- 2. Reduced Student Enrollments** - Carry-forward balances may also result from reduced student enrollments in MSP programs. Whenever fewer students are ultimately enrolled in basic programs than had been anticipated and funded, or if student enrollments decrease during the course of the school year, there may be surplus money in those programs. For example, the student enrollment planning committee estimated there would be 472,469 students enrolled in the basic school program in fiscal year 1995; actual enrollments that year (October 1994) were 471,402, or 1,067 less than estimated. That year the value of the weighted pupil unit was \$1,608 which meant that some \$1.7 million in state money that had been appropriated for student enrollments was not actually needed.
- 3. Conservative Budgeting** - To some degree, excess MSP dollars also represent the fact that the SOE and others involved in the budgeting process are careful in their estimates. Ideally, revenue estimates and student projections will be as accurate as possible, but the tendency is always to err on the side of caution. It is much better to have excess rather than insufficient funds at year end because a revenue shortfall creates a lot of problems since most of the money has already been distributed to school districts.

These reasons adequately explain why MSP carry-forward balances exist, and based on our review of the expenditures we believe carry-forward money is being used appropriately.

Other SOE Discretionary Monies Are Used Appropriately

In addition to analyzing carry-forward money within the MSP, we also reviewed a separate account of discretionary funds that accumulate from unused dollars within the SOE's internal budget. These are excess dollars from educational programs and support services that are operated out of the SOE's central office and controlled by the state superintendent, and they average over \$800,000 annually. In summary, we found that:

- ▶ **SOE Discretionary Funds are used for Education-Related Purposes**
- ▶ **Discretionary Funds Accumulate From Unused Portions of the SOE Budget and are Relatively Small**

SOE Discretionary Fund Expenses Are Education-related

Discretionary funds within the SOE budget are used for a variety of purposes which directly or indirectly relate to education. For example, in fiscal year 1998 discretionary funds have been or are scheduled to be used for:

- **Information Systems** - About \$68,000 is being used to develop a software system which will uniformly track teacher certifications, credentials, and other professional development information throughout the districts. This is the second year of funding for this software which is supposed to help monitor teaching assignments, aid in recruiting among districts, and generally replace a system which did not allow for much specificity or distinction of this type of information. In addition, another \$11,000 has been used to purchase computer hardware for SOE administrators.
- **Educational Video and CD Development Costs** - Some \$65,000 is being used to produce and distribute educational video and CD materials. For instance, the "Teaching the Law" video discusses legal issues and helps teachers understand how to avoid potential problem areas in interacting with students, and the "Trust Land" video is designed to increase awareness among legislators, school administrators, PTA groups, etc., about school trust lands and the importance of preserving the land as a source of revenue. Also, a CD-ROM produced jointly by the SOE, the State Board of Regents, and the Utah Education Network documents Utah's history and is designed for use in classrooms.
- **Personnel Costs** - About \$125,000 is being used to pay the salary and benefits for two staff positions. One of these is for an attorney to help with legal issues pertaining to education, and the other is for a rural schools specialist to act as liaison between the SOE and rural districts to make sure support services are being delivered to rural areas and any concerns or needs are being conveyed back to the SOE.
- **Training Expenses for SOE Staff**- This year (fiscal 1998) SOE staff will participate in

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two separate training sessions covering topics such as cultural diversity, time management, and sexual harassment in order to increase workplace professionalism and productivity. \$11,000 will be used to cover the cost of rented facilities, speakers and presenters, meals, etc.

We reviewed the supporting documentation for a sample of these discretionary fund expenses; all appear legitimate and we did not observe any problem with the way discretionary money has been used.

Discretionary Funds Accumulate from Unused Portions Of the SOE Budget and Are Relatively Small

Discretionary fund balances result from unused monies within the budgets of programs run out of the State Office of Education. Unlike dollars in the MSP which are disbursed by the SOE directly to districts to fund basic school operations, the SOE has a budget of about \$100 million to administer other educational programs and support services from its central office. Most of the SOE budget comes from federal sources which must be used in specifically designated ways. However, about \$14 million comes from state revenue sources which are non-lapsing and can be used with greater flexibility. The superintendent has chosen to transfer any unused portion of state money at fiscal year end into a single discretionary fund rather than allow the balances to remain within individual program budgets. (Evidently, much of this unused money represents one-time savings from delays in the implementation of certain projects and in personnel costs due to position turnover in SOE program areas.) These monies may then be used to fund various projects and expenses, usually on a one-time or time-limited basis, upon request as approved by the superintendent. According to the SOE, this process allows them to reevaluate where money can be directed and provides them with a source to fund existing programs and new projects as needs arise.

Figure II shows a five-year comparison of discretionary fund balances and expenditures.

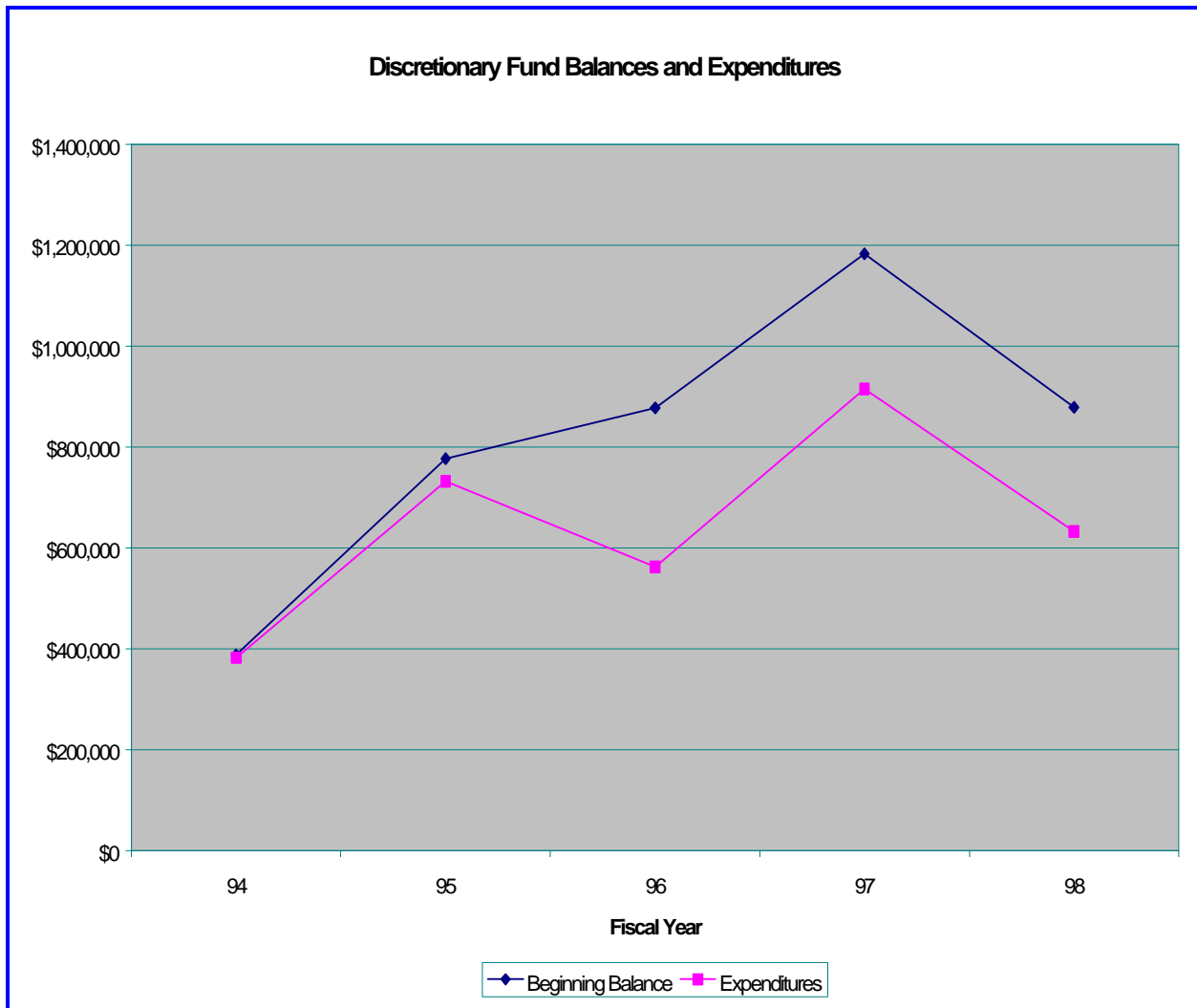


Figure II - SOE discretionary fund balances have averaged over \$820,000 in the last five years with annual expenditures averaging about \$645,000. Although fund balances have grown, they are less than 1% of the total SOE budget.

To summarize, the practice of transferring unused SOE program money into a discretionary fund is reasonable in our opinion. We believe that these monies are being used in an appropriate manner to fund education-related programs as shown in the previous examples.

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Recommendations:

1. We recommend the State Office of Education make an accounting each year to the Legislative Fiscal Analyst providing balance and expenditure information for both MSP carry-forward funds and SOE discretionary funds.
2. We recommend the State Office of Education more clearly specify and account for the sources of carry-forward money in the Minimum School Program. Alternatively, we recommend the SOE take steps to keep unexpended amounts that are appropriated for specific programs from becoming part of the MSP carry-forward balance so these dollars do not mix with money that can be used with greater flexibility.

We hope this letter addresses your concerns. A response letter from the State Office of Education is attached. If there is any additional information you need or if you have any further questions, please feel free to contact our office.

Sincerely,

Wayne L. Welsh
Auditor General

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