SCHOOL BUDGET REVIEW [289]

Notice of Intended Action

Pursuant to the authority of Iowa Code section 257.30, the School Budget Review Committee hereby proposes to amend Chapter 6, "Duties and Operational Procedures," Iowa Administrative Code.

The proposed amendments account for changes in statute, as well as in accounting terminology or procedures. Specifically, the law changed the procedures on cash reserve levy and what the School Budget Review Committee must consider before granting modified allowable growth.

A waiver provision is provided in 289—Chapter 8.

Interested individuals may make written comments on the proposed amendments on or before November 22, 2011, at 4:30 p.m. Comments on the proposed amendments should be directed to Su McCurdy, Administrative Consultant, Iowa Department of Education, Second Floor, Grimes State Office Building, East 14th Street and Grand Avenue, Des Moines, Iowa 50319–0146; telephone (515)281–4738; E–mail su.mccurdy@iowa.gov; or fax (515)242–5988.

A public hearing will be held on November 22, 2011, from 1 to 2 p.m. in the State Board Room on the second floor of the Grimes State Office Building, East 14th Street and Grand Avenue, Des Moines, Iowa, at which time persons may present their views either orally or in writing. Any person who desires to attend the public hearing and has special requirements, such as those related to hearing or mobility impairments, may advise the Department of Education of specific needs by calling (515)281–5295.

After analysis and review of this rule making, no impact on jobs has been found.

These amendments are intended to implement Iowa Code sections 257.30, 273.2, 273.3, 282.30 and 282.31.

The following amendments are proposed.

Item 1. Amend **289—Chapter 6**, title, as follows:

~~DUTIES AND~~ OPERATIONAL PROCEDURES

Item 2. Adopt the following **new** definitions of "Area education agency," "Basis of accounting," "Basis of budgeting," "Class action," "Community college," "Modified allowable growth," and "School corporation" in rule **289—6.1(257)**:

"Area education agency" or *"AEA"* means a regional service agency organized under Iowa Code chapter 273 that provides school improvement services for students, families, teachers, administrators, and the community.

"Basis of accounting" means the accrual or modified accrual accounting basis under generally accepted accounting principles (GAAP) as defined by the governmental accounting standards board (GASB).

"Basis of budgeting" means the accrual or modified accrual budgeting basis under GAAP as defined by GASB.

"Class action" means a decision that applies to multiple districts with the same or substantially similar needs and the SBRC has determined that the districts can be considered jointly in a single hearing.

"Community college" means a publicly supported school organized under Iowa Code chapter 260C.

"Modified allowable growth" means an amount expressed in dollars which is added to the district's authorized budget.

"School corporation" means a school district, area education agency, or community college.

Item 3. Rescind the definitions of "Actual enrollment," "Additional enrollment," "Allowable growth," "Basic enrollment for a budget year," "Basic enrollment for the base year," "Budget adjustment," "Budget enrollment for the budget year," "Combined district cost per pupil," "Combined state cost per pupil," "Property tax adjustment," "Regular program district costs," "Special needs adjustment," "State percent of growth," and "Weighted enrollment" in rule **289—6.1(257)**.

Item 4. Amend the definitions of "Authorized budget," "Certified budget," "Expenditures," "Miscellaneous income," "Unexpended cash balance," and "Unspent balance" in rule **289—6.1(257)** as follows:

"Authorized budget" ~~is~~ means the total dollars available as the expenditure limit for a school district for a specific fiscal year. This total is the combined district cost plus miscellaneous income actually received during the fiscal year, plus the unspent balance of the previous year.

"Certified budget" ~~is~~ means the (document) amount which has been published and certified as provided for in Iowa Code chapter 24 and contains the amount proposed to be expended during the budget year. ~~If the authorized budget exceeds the certified budget, the certified budget must be amended to expend those excess funds.~~

"Expenditures" means the total amounts paid from the general ~~operating~~ fund of a school ~~district~~ corporation.

"Miscellaneous income" means the receipts deposited to the general ~~operating~~ fund of the school district but not including any of the following:

1. Foundation aid.

2. Revenue obtained from the foundation property tax as defined in Iowa Code section 257.3(1).

3. Cash reserve levy.

4. Revenue obtained from the additional property tax under Iowa Code section 257.4.

"Unexpended ~~cash~~ fund balance" ~~is~~ means the district's ~~cash position at any given time~~ fund balance in the general fund reported by the district on the GAAP accounting basis on its certified annual report. ~~(It does NOT have a direct relationship to the "unspent balance.")~~

"Unspent balance" ~~is~~ means the amount of the authorized budget for the general fund less the amount ~~not~~ expended during the budget year on the GAAP budgeting basis as reported by the school district on its certified annual report. ~~(These funds are also commonly termed "unspent balance carried forward," or "carryover dollars.")~~

Item 5. Amend rule **281—6.3(257)** as follows:

289—6.3(257) Hearing procedures.

6.3(1) *Request for ~~appearance~~ hearing.*

a. ~~A school district~~ The board of a school corporation requesting ~~an appearance~~ a hearing before the SBRC is required, after taking official board action on the subject of the hearing, to submit ~~a written~~ an electronic request to the committee stating the reason for the ~~appearance~~ request for a hearing. ~~Confirmation of each request will be sent to the school district upon receipt of the request.~~

b. A request must be received by the committee at least ~~one month~~ six weeks prior to the date of the scheduled hearing.

c. School ~~districts~~ corporations with similar requests may appear and present their requests jointly at the discretion of the SBRC chairperson.

6.3(2) *Notification ~~to districts~~.*

a. ~~School districts scheduled for hearings will be notified three weeks prior to the hearing.~~ An electronic confirmation of each request shall be provided to the school corporation upon receipt of the request for hearing.

b. The SBRC may require board members or employees of any school corporation to appear. School corporations required to have a board member or employee appear shall be notified no later than three weeks prior to the hearing.

~~*b.*~~ *c.* School ~~districts~~ corporations scheduled for hearings will be ~~listed as to time and place, and notice will be sent to school officials involved~~ notified ~~not~~ no later than ~~two~~ one ~~weeks~~ week prior to the hearing.

~~*c.*~~ *d.* A school ~~district~~ corporation desiring to withdraw its request to appear before the SBRC ~~should~~ shall immediately inform the committee~~, local media,~~ and the legislators within whose constituency the school corporation is located. A school corporation required to appear may not withdraw without the approval of the SBRC.

6.3(3) *Material for ~~agenda~~ the hearing.*

a. Any information requested by the committee must be provided ~~by the school district~~ within the timelines requested by the committee in order for the school ~~district~~ corporation to be included on the ~~agenda~~ schedule for a hearing. ~~Ten~~ One original and eleven copies of written material, and one full set of the materials provided electronically in editable word or spreadsheet format, shall be submitted at least ~~two~~ four weeks prior to the scheduled hearing. ~~A summary not to exceed two pages of the school district's~~

~~request must be submitted to the committee.~~ The SBRC chairperson may set an earlier due date for information if necessary for adequate review based on the quantity or complexity of hearings. If a school corporation's exhibits for a hearing the school corporation has requested are not received timely, the school corporation's hearing shall be postponed to the next following regularly scheduled session. Where applicable, the committee will provide forms or checklists to school corporations to obtain uniform and comparable data for determining committee decisions.

b. School corporations shall include in their materials for the hearing a copy of publication of the board minutes that include the official action taken by the applicable school corporation board on the subject of the hearing and authorizing its administrative officials to request modified allowable growth or use of the unexpended fund balance.

~~*b.*~~ *c.* It shall be the responsibility of the administrative officials and board members to present information and materials in support of ~~the school district's~~ its school corporation's request to the committee in a timely manner. No additional materials or information shall be presented at the hearing that was not originally provided pursuant to paragraph "a."

d. The SBRC may require staff of the department of education or department of management to appear or provide information for a hearing or for a study. The SBRC may require staff of any school corporation to provide information for a hearing related to another school corporation or for a study.

e. In order to have the information necessary to evaluate balances and budgets as required by Iowa Code or to evaluate materials submitted by school districts or AEAs, all school districts and AEAs shall file financial and enrollment reports, including the

certified annual report, in the manner, by the procedures, and by the dates prescribed by the departments of education or management.

f. If the requirements in paragraph "g" of this subrule are not met, the SBRC may implement the procedures described in subrule 6.3(5).

g. Applications for any supplemental aid funding shall be filed by the due date established in Iowa Code, administrative rule, or otherwise by the departments of education or management.

h. Applications for modified allowable growth for increased certified enrollment over the prior year's enrollment, applications for modified allowable growth to pay tuition costs for open enrolled out students that were not enrolled in the district on the certified enrollment date in the prior year, and applications for modified allowable growth for excess costs of limited English proficient instructional programs must be received no later than December 1 of the budget year.

i. Applications for modified allowable growth for returning dropout and dropout prevention programs shall be filed by December 15 of the base year.

j. Requests to charge administrative costs to the special education program for the subsequent fiscal year must be received no later than February 1.

k. Applications described in paragraphs "g" and "i" of this subrule that are not timely filed will not be considered for supplemental aid or for modified allowable growth. Applications described in paragraphs "h" and "j" of this subrule that are not timely filed may be considered at the discretion of the SBRC.

6.3(4) *Permission to speak during the hearing.* Any person wishing to appear before the committee, other than the board member or administrative employee representing the

school corporation, shall submit a request in writing prior to the hearing date. Permission may be granted to a request made at the hearing upon a majority vote of the committee members present.

6.3(5) *Failure to appear or to provide information.* If any school corporation fails to appear as required by the committee or fails to provide any information requested by the SBRC, including the reports described in paragraph 6.3(3)"e," the SBRC may direct the director of the department of management to withhold state foundation aid until the school corporation complies with the SBRC's requests. When the school corporation satisfactorily complies with the SBRC request, the withheld state foundation aid will be released with the next regularly scheduled date for state processing of foundation aid.

~~**6.3(5)**~~ **6.3(6)** *Decisions by the committee.*

a. A decision shall be made no later than the end of the day of the hearing to ~~either~~ table, deny, modify or grant ~~an adjustment where a school district has made a request~~ the request of a school corporation.

~~*b.* If the decision is made when the school district representatives are not present, the school district shall be informed of the decision by telephone the next working day following the hearing.~~

~~*c.*~~ *b.* ~~On all decisions, the~~ The school ~~district~~ corporation shall receive ~~written confirmation~~ electronic notification when a summary of the final action taken by the committee is posted on the SBRC website.

c. The committee shall consider the intent of Iowa Code chapter 257 in making its decisions. The intent includes the following:

(1) equalizing educational opportunities,

(2) providing good education to all Iowa children,

(3) providing property tax relief,

(4) decreasing the percentage of school costs paid by property tax, and

(5) providing reasonable control of school costs.

d. The committee shall also consider in making its decisions the following:

(1) The amount of unexpended fund balance available in all funds.

(2) The amount of unspent balance in the General Fund.

(3) Local tax rates.

(4) Documented local taxpayer support for the request.

(5) Local effort to obtain alternative funding where available and applicable.

(6) Documented actual unduplicated costs of the program or project that is the subject of the request.

(7) Sustainability of the programs or needs within the district or AEA budgets.

(8) Number and cost of previous requests for the same need and the number and cost of all previous requests.

(9) Potential for duplicate funding of the same program or need.

(10) Alternative procedures in Iowa Code or administrative rules to provide funding for the same program or need.

(11) Life safety issues documented through an independent, authoritative source.

(12) Documented unusual or unique nature of the need.

(13) Sustainability of the program or project without future requests.

(14) Any other information the SBRC members consider pertinent to the consideration of the request.

~~**6.3(6)**~~ **6.3(7)** *Routine action by the committee*. School ~~districts~~ corporations do not need to be represented when action under consideration is for such items as cash reserve levies, ~~gifted and talented, drop-out~~ returning dropout/dropout prevention programs, special education ~~negative~~ balances or other situations which ~~could be~~ are considered "class action" decisions as determined by the SBRC.

6.3(8) *Basic policies*. The SBRC has established the following basic policies that it shall consider in rendering its decisions.

(1) Modified allowable growth requests shall be considered only for the budget year except where the Iowa Code expressly authorizes modified allowable growth to be granted for a subsequent year.

(2) Modified allowable growth requests shall be considered only for expenditures permitted from the general fund pursuant to Iowa Code.

(3) Modified allowable growth requests shall not be considered for any situation where Iowa Code has established a different funding method.

(4) Modified allowable growth requests shall be considered only for unusual, unique or unforeseeable circumstances.

(5) Modified allowable growth requests shall be considered only in the budget year in which the expenditures shall occur and only to the extent of the actual, documented costs.

(6) Modified allowable growth requests shall be considered only if the school district has sufficient unrestricted, unexpended fund balance as of the end of the previous fiscal year to expend the full costs for the purpose of the request to the SBRC.

(7) Modified allowable growth requests shall be considered only if the school district does not have sufficient unobligated unspent balance to expend the full amount for the program or project that is the subject of the request to the SBRC.

6.3(9) *Use of the unexpended fund balance.* If the SBRC approves use of the unexpended fund balance, the school district shall report to the committee as required by the committee an accounting of expenditures on the project until the project is completed. If any portion of the amount granted by the SBRC remains unexpended at the completion of the project, the school district shall notify the SBRC on or before its next regularly scheduled meeting. Any portion of the amount granted by the SBRC that remains unexpended at the completion of the project, shall be returned to the unexpended fund balance in the general fund.

6.3(10) *Modified allowable growth to an AEA.* If the SBRC approves modified allowable growth for special education support services or approves an additional amount to be added to district costs for media services or educational services, or approves modified allowable growth for unusual circumstances, the amount shall be included in the budget of each district in the AEA for the subsequent budget year in the proportion that the appropriate enrollment of each district in the AEA bears to the total enrollment of all districts in the AEA.

Item 6. Amend rule **281—6.4(257)** as follows:

289—6.4(257) ~~General duties~~ Accounting and Reporting.

~~**6.4(1)** *Review of rules, regulations, directives and forms.* The committee may recommend the revision of any rules, regulations, directives, or forms relating to school district budgeting and accounting, confer with local school boards or their representatives and make recommendations relating to any budgeting or accounting matters, and direct~~

~~the director of the department of education or the director of the department of management to make studies and investigations of school costs in any school district.~~ In order for the SBRC to have data on which it may rely, the school district or AEA shall maintain its financial records and prepare financial reports, including the certified annual report, in the manner and by the procedures prescribed by the departments of education or management in the Uniform Financial Accounting for Iowa LEAs and AEAs (UFA) manual and GAAP. School districts and AEAs shall use the chart of accounts defined in Uniform Financial Accounting for Iowa LEAs and AEAs (UFA).

~~**6.4(2)** Report to general assembly. The committee shall report to each session of the general assembly any recommended changes in laws relating to school districts and shall specify the number of hearings held annually, information about the amounts of property tax levied by school districts for a cash reserve, and other information the committee deems advisable.~~

Item 7. Amend subrule **6.5(1)**, introductory paragraph, as follows:

6.5(1) *Generally accepted accounting principles.* All school districts and AEAs shall budget on the ~~generally accepted accounting principles (GAAP)~~ GAAP basis of budgeting as defined by the GASB. School districts and area education agencies shall use the chart of accounts defined in Uniform Financial Accounting for Iowa LEAs and AEAs (UFA). ~~beginning with fiscal year 2006-2007~~. ~~In order to effect this change in accounting/budgeting methods, the SBRC shall direct the departments of education and management to adjust calculations from the 2004-2005 certified annual report (CAR) related to the 2004-2005 unspent balances carried forward to the 2005-2006 unspent balances in order to hold districts harmless.~~ If a district has revenues that it had not

estimated and appropriated for expenditures on its certified budget, the district must amend its certified budget prior to expending those excess funds.

Item 8. Amend subrule **6.5(1)** by striking paragraphs "a" through "d."

Item 9. Rescind and reserve subrule **6.5(2)**.

Item 10. Amend subrule **6.5(3)** as follows:

6.5(3) *Negative unspent balances (exceeding authorized budgets).* Each school district shall calculate its unspent balance by October 1. If the school district has incurred a negative unspent balance, it shall notify the SBRC no later than October 15 and begin developing its corrective action plan to avoid future negative unspent balances.

a. A listing of the unspent balance as well as the unexpended ~~cash~~ fund balance of each school district for each fiscal year shall be reviewed by the committee. Unspent balance and unexpended fund balance shall be presented on the GAAP basis.

b. No change.

c. The state board of education ~~shall~~ may be notified of the school districts with negative unspent balances each year. The notification shall include the amount the school district exceeded its authorized budget.

d. The board ~~members~~ president of each ~~districts~~ district with a negative unspent ~~balances~~ balance shall be notified of the amount the school district exceeded its authorized budget. The school districts shall inform the SBRC at its next ~~official hearing~~ regularly scheduled session of the plans that are being implemented to avoid future negative unspent balances.

e. The SBRC may require the district to continue to report progress on its plans at regular intervals as determined by the committee until the committee is satisfied that the district's financial condition concerns have been resolved.

Item 11. Amend subrule **6.5(4)** as follows:

6.5(4) *Cash reserve levy.*

a. No change.

b. If in the committee's judgment, the amount of a district's cash reserve levy is unreasonably high or is in excess of the amount necessary for operations, the committee shall instruct the district to use the unexpended fund balance in lieu of levying property taxes and shall direct the director of the department of management to reduce that school district's tax levy for the following budget year to a level that is not excessive as determined by the SBRC and does not exceed the cash reserve limitation ~~for the following budget year by the amount the cash reserve levy is deemed excessive~~ in paragraph "c".

c. ~~Notwithstanding any other action approved by the committee~~ The cash reserve levies for the budget year ~~(reference lines 15.9/15.10 of the Aid & Levy Worksheet)~~ shall not exceed ~~25~~ 20 percent of the ~~(SAR reference Item L, column 9, cell 602) operating~~ general fund expenditures for the year previous to the base year minus the ~~(SAR reference Item J, column 1, cell 293) operating~~ general fund ~~unspent cash~~ unexpended fund balance for the year previous to the base year. Expenditures and fund balances shall be determined on the GAAP basis. For purposes of this paragraph, unexpended fund balance shall mean the combined assigned and unassigned fund balances in the general fund.

d. No change.

e. The decision of the district board to implement additional taxes for cash reserve is subject to appeal pursuant to the provisions of Iowa Code section 24.27.

Item 12. Amend subrule **6.5(5)** as follows:

6.5(5) ~~*Supplemental aid and modified allowable growth.*~~ *Negative Fund Balances.*

~~The committee may grant supplemental aid to school districts from any funds appropriated to the department of education for use of the school budget review committee or may establish a modified allowable growth for a school district by increasing its allowable growth for purposes outlined in Iowa Code subsection 257.31(5). Such aid shall be miscellaneous income and shall not be included in the combined district cost. These funds may be provided for, but not limited to, the following situations:~~

~~*a.* Unusual circumstances.~~

~~(1) Any unusual increase or decrease in enrollment.~~

~~(2) Unusual natural disasters.~~

~~(3) Unusual initial staffing problems.~~

~~(4) The closing of a nonpublic school, wholly or in part.~~

~~(5) Substantial reduction in miscellaneous income due to circumstances beyond the control of the district.~~

~~(6) Unusual necessity for additional funds to permit continuance of a course or program which provides substantial benefit to pupils.~~

~~(7) Unusual need for a new course or program which will provide substantial benefit to pupils, if the district establishes the need and the amount of necessary increased cost.~~

~~(8) Unusual need for additional funds for special education or compensatory education programs.~~

~~(9) Year-round or substantially year-round attendance programs which apply toward graduation requirements, including, but not limited to, trimester or four-quarter~~

~~programs. Enrollment in such programs shall be adjusted to reflect equivalency to normal school year attendance.~~

~~(10) Unusual need to continue providing a program or other special assistance to non-English speaking pupils after the expiration of the three-year period specified in Iowa Code section 280.4.~~

~~(11) Circumstances caused by unusual demographic characteristics.~~

~~(12) Any unique problems of school districts.~~

~~*b. Environmental hazard-asbestos.* School districts may request modified allowable growth for removal, management, or abatement of environmental hazards due to state or federal requirements. Environmental hazards shall include but are not limited to the presence of asbestos, radon, or the presence of any other hazardous material dangerous to health and safety.~~

~~*c. Unexpended cash balance.* School districts desiring to use a portion of the unexpended cash balance to furnish, equip and contribute to the construction of a new building must submit a formal request to the committee.~~

~~*d. Accounting procedures.* The committee may approve or modify the initial base year district cost of any school district which changes accounting procedures.~~

~~*e.* Circumstances relating to open enrollment as provided by Iowa Code section 282.18.~~

Each school district shall report its fund balances for each fund on its certified annual report. If the district has incurred a negative fund balance in any fund, it shall notify the SBRC no later than October 15 and begin developing its corrective action plan to avoid future negative (deficit) fund balances.

a. A listing of the fund balances in each fund, unrestricted fund balances in each fund, as well as the unspent balance each school district or AEA for each fiscal year shall be reviewed by the committee. Unspent balance, fund balance, and unrestricted fund balance shall be presented on the GAAP basis.

b. If a district has a negative fund balance in the general fund in the base year, it shall not request modified allowable growth in the budget year.

c. The state board of education may be notified of the school districts or AEAs with negative balances each year. The notification shall include the amount the school district or AEA has incurred as a negative (deficit) balance by fund.

d. The board president of each district~~s~~ or AEA with a negative balance shall be notified of the amount the school district or AEA incurred as a deficit balance by fund. The school district or AEA shall inform the SBRC at its next regularly scheduled session of the plans that are being implemented to avoid future negative balances.

e. The SBRC may require the district to continue to report progress on its plans at regular intervals as determined by the committee until the committee is satisfied that the district's financial condition concerns have been resolved.

Item 13. Rescind and reserve rules **281—6.6(257)** and **281—6.7(257)**.

Item 14. Adopt the following **new** rule **289—6.9(257)**:

289—6.9(257) Special education administrative costs. When a district presents evidence that it has unusual circumstances that would justify charging administrative costs to the special education program, the committee may authorize such expenditures. The committee shall use the following criteria in evaluating the evidence presented by the district:

a. A separate facility for special education having sufficient student population to warrant a special education certified administrator. In this case, the district, if approved by the SBRC, could bill the prorated cost to other resident districts as well as include the prorated portion related to its own resident students in the special education program expenditures.

b. One or more private facilities located within the district with sufficient student population that is served by the district. In this case, the district, if approved by the SBRC, could include the lower of the prorated actual administrative costs or the prorated approved administrative costs in the billing to other resident districts in proportion to each districts' resident students in the program, but shall not include the prorated portion related to its own resident students in the special education program expenditures.

Item 15. Adopt the following **new** rule **289—6.10(257)**:

289—6.10(257) Area education agency budget review. Pursuant to Iowa Code section 257.36, year-end special education support services committed and uncommitted fund balances exceeding ten percent of the special education support services expenditures for that fiscal year shall be reverted and reduced to ten percent. The AEA shall report the necessary information for this calculation on its Certified Annual Report. The components of fund balances shall be determined in compliance with department of education guidance and GAAP. The AEA shall not move balances to other fund balance components or to other funds to avoid this reversion. The amount to be reverted shall be deducted from the state aid payments to the AEA during the budget year.

These rules are intended to implement Iowa Code ~~section~~ sections 257.30, 257.31, 257.32, 298.10, and 260C.