The Board's Role in Financial Responsibility

What you will learn:

- Scope of district fiduciary activities
- Basic statutorily prescribed tasks of the board as a fiscal steward
- Three key tools in serving responsibly as a steward

Key points:

- A basic understanding of the state finance system is crucial to an understanding of how district circumstances affect revenue; questioning the long-term impact of budgetary decisions is critical to avoiding misguided decisions.
- Clearly defined processes for basic fiscal tasks assist the board in acting corporately and efficiently in performing fiscal duties.
- A clearly defined vision and priorities for the district is a critical document for responsible fiscal planning.

"An independent school district is governed by a board of trustees . . . ."[1]

So begins the section of Texas statute that creates local school boards and enumerates their legal powers and duties.

The key word in this opening phrase is the word "trustees." In the highly charged political climate we live in, we often forget that school boards are not constituted as legislative bodies whose members' obligation is to represent the wishes of those who elected them. School board members are "trustees." As a body, they have been "entrusted" by their community with the resources the community has at its disposal for the education of its children. They are expected, as corporate body, to ensure that those resources are used wisely, efficiently, and effectively for the future of the community's citizens.

The "resources" in question are, of course, financial resources—the real property the district holds, but more critically, the revenues that come to the district from state and federal sources and from local taxation. These revenues are what are used to employ staff, keep complex buildings running, purchase a range of instructional materials, provide myriad support services, and cover the district's debts incurred from its building and capital improvement projects.

In the vast majority of Texas communities, the amount of money flowing into and out of a school district's accounts in a given year is greater than that flowing into or out of any other organization in the community—public or private. So, even in the smallest communities in Texas, the members of the local board of trustees serve as directors of, in effect, a very large corporation, usually the largest "corporation" in the community.

This is a tremendous responsibility for a lay board of trustees, many of whom may have no experience with fiscal matters on a scale larger than their household budget. Fortunately, the state provides basic assistance to lay boards by prescribing in statute certain actions the board must take on a prescribed schedule. These required actions institutionalize for the board most basic practices that allow the board to keep a careful eye on the overall financial situation of the district.

Among the major statutory tasks each local board must perform every year are

- Adopting a budget, based on a draft prepared by the superintendent
- Adopting a tax rate sufficient to fund the budget
- Monitoring the district's finances on an ongoing basis
- Making sure accounts are audited by an external auditor each year
- Publishing an end-of-year financial report for the community[2]

In addition, state agency rules provide guidelines on a number of the activities that boards often perform in the normal course of operations—acquiring property, entering into contracts, collecting taxes, issuing bonds—to help a board ensure that the district is following prudent practices when engaged in each of these tasks. Agency guidelines also help a board know if the parameters of the district's annual budget are consistent with prudent financial practices for a large organization.

Board members can find a complete list of the board's fiduciary powers and duties in the *Texas Education Code*[3] or in Policy BAA in TASB localized district policy manuals. Many of the guidelines provided to assist the board are discussed later in this publication and can be found in the policies in section "C" of TASB localized district policy manuals.

But a simple list of legally required tasks and guidelines a board is expected to follow does not give a complete picture of how an effective board fulfills its financial responsibilities to the district and the community.

An effective board makes sure that its actions are performed in a context that supports wise stewardship of district resources. Specifically,

- It makes sure that each of its members and the board, collectively, has a basic understanding of school finance in Texas, the fiscal situation of the district, and has learned routinely to ask administration about the likely impact of budgetary decisions on district finances going forward;
- It ensures that the district has clear and defined processes for each of the major fiscal tasks, from developing and adopting a budget, to the board's oversight of implementation of the budget, to conducting the annual audit; and, perhaps most importantly
- It has a clear vision and priorities for the district that structure the allotment of resources within the district.

Each of these contributes to a context in which the board can be reasonably sure it is acting prudently and with foresight in expending the resources with which it has been entrusted by the community.

The Finance System and the Impact of Board Decisions

School finance in Texas, as in most states, is an immensely complex system—one that no lay board member should be expected to have mastered or even be familiar with in its myriad details. The district's financial manager, if it has one, and superintendent are the persons who should be charged with that responsibility.

But board members should be familiar with the basic elements of the system, such as the percentage of monies in the district that come from state or federal sources, as opposed to local taxation, and the basis on which those state resources are allocated; how changes in the district, such as population changes and "bubbles" or the loss of major corporations, can affect state and local funding; the limitations on local taxation and the fiscal impact of changes in taxation upon the local budget. This kind of knowledge is necessary to ensure the board has some small capacity to anticipate changes in the district's revenue profile in coming years, either as a consequence of state policy or as a consequence of district circumstances. It will allow them, if not to plan accordingly, at least to be alert to likely contingencies.

Beyond basic information about the finance system, boards must learn to ask questions about the long-term implications of the decisions they themselves make as a board, so that they do not inadvertently have an adverse impact on district finances in the future. Salary increases or adding staff, for example, have an impact on district finances far beyond the way they affect the numbers in a current year budget. And the extent of their impact is not as simple as it might seem to someone unfamiliar with organizational budgeting. Likewise, decisions to fund programs or activities with money from the district's fund balance or "reserve fund" can have serious adverse consequences on a district's finances going forward.

So, boards that want to exercise responsible stewardship of district finances should be armed with these two tools: basic information about the finance system, so that they can anticipate the district's revenue profile in coming years and anticipate the impact of changes within the district; and the habit of asking about the long-term fiscal impact of board decisions, so they can begin to understand the complexities of budget decisions and do not inadvertently make decisions that place the district in a difficult position in the future.

In addition, a board's being familiar with the basic elements in a school district audit, as required by the state, and the financial accountability system used by the state can help a board make sure it understands the baseline expectations of the state for fiscal soundness and fiscal integrity in a district. See this Guide at *School FIRST and the Financial Solvency Review Process* and *School District Audits*.

Clearly Defined Processes

Each of the major statutory tasks listed in the early paragraphs above is performed by the board as a corporate body, in conjunction with the superintendent. This means, first of all, that all members of the board must have a clear understanding of how the board performs each task as a corporate body. Otherwise, each board member might endeavor to monitor district finances in his own way, using his own standards of appropriateness, creating, as the very least, enormous inefficiency in district operations. The board should have a clear timeline for when tasks are to be performed and a clear set of steps or standard operating procedure for each of them. Likewise, since each board task is performed in conjunction with the superintendent, the board and superintendent must clearly delineate their respective roles in each task.

The superintendent, for example, is charged by statute with developing a proposed budget for the board to work from. The board is not required to accept the budget as presented, but it must work from the draft. It makes sense, then, for the board and superintendent to have developed a procedure for budget development and adoption, starting with a timeline for annual budget development and a discussion between the board and superintendent about the assumptions the administration will be using in developing the budget it puts before the board. A clear timeline for budget development and an early conversation between the board and superintendent on assumptions will help ensure that the budget the administration develops is in line with the board's corporate expectations. It will make both the development and adoption process easier for all.

In addition, it is useful for the board to get an annual briefing from the superintendent on the process he or she uses in developing the budget so that the board has an idea of how the numbers it receives from the superintendent were derived.

All of these shared activities, as clearly defined steps in the budget development and adoption process, can ensure that the budgeting process is efficient and results in a budget that reflects the corporate will of the board.

Similarly defined steps in the board's monitoring the district's implementation of the budget are just as crucial for ensuring efficiency and consistency in the board's handling of this statutory task. A clear agreement among the members of the corporate board with the superintendent about, for example, what financial reports the board will expect from the administration each month, or each quarter, how that information is most usefully displayed, and what circumstances should be accompanied by explanation can go a long way to helping the board avoid frustration in the monitoring process and keep individual board members from making duplicate or unnecessary requests for information from the administration. Agreement about reports and consistency in their presentation can also promote confidence in the administration's implementation of the budget.

These are just two examples of how well-defined processes in the board's carrying out its fiduciary responsibilities as a corporate body with the superintendent can help ensure the board is acting responsibly and efficiently in its stewardship of district resources.

Clear Vision and Priorities

A board cannot exercise responsible stewardship of district resources unless it has a clear idea of what it wants to accomplish with and through those resources. Without that clear idea of priorities and a clear picture of what the board wants the district to accomplish in using its resources, the board has no basis for knowing if those resources are being expended wisely and efficiently.

Perhaps the single most important tool a board needs in order to be confident it is exercising responsible stewardship—and the first, even though it is listed last here—is a clearly defined and clearly articulated vision for the district and a clear statement of the priorities that follow from that vision. Boards frequently overlook the central importance of this step to fiscal responsibility.

By statute, the board must have a vision statement and corresponding goals for the district.[4] A board interested in responsible stewardship takes this requirement very seriously. It spends time with its administration to ask basic questions about what truly is most important in the district. What is the role of electives and extracurricular activities relative to the core instructional program? On what bases do we answer that question? What is the culture of instruction we want in the district and, given that, what are the most effective instructional arrangements for learning? On what basis do we balance effective instructional arrangements against efficiency and fiscal capacity (since, as most experienced board members know, staff salaries and benefits currently constitute anywhere from 75 to 85 percent of the district's annual financial expenditure)? How critical is the incorporation of digital technologies into our district instructional programs—do we want to be aggressive in exploring options for innovative instructional arrangements using technology? If we had to cut expenses by 20 percent, what would we cut so that cuts would have the least impact on what we value—an exercise that is always more profitably done as an exercise, not when it becomes a necessity.

All of these questions—and the ones listed are the barest tip of the iceberg—are an essential part of a responsible "visioning" process, an essential part of a board's making a decision about priorities. They are all a part of the board's coming to a clearly articulated statement of what the district is about, what matters most in the district and therefore must be reflected in the way the district spends its resources.

A vision that the board has truly grappled with—one that reflects the hard decisions involved in setting priorities, in thinking about the aspirations of the community and about the board's aspirations for the community, that looks at the values the board wants the district's work to embody for the community—is a critical tool both in responsible short- and long-term fiscal planning and a vital guidepost in decision making. It provides a context for the major fiscal decisions a board must make in the course of a year. Without it, a board finds itself inventing criteria for its fiscal decision making at each bend in the financial road.

These are three tools that allow a board to exercise its fiscal stewardship responsibly: having a clear vision and priorities, so that the board has a clear context for fiscal decision making; understanding enough about the finance system and enough about the impact of its fiscal decisions so that the board can responsibly proceed to realize the vision and honor the priorities; and having well-developed processes for the major fiscal tasks, so that they can be performed efficiently and effectively by the board functioning as a corporate body.

Written by Bill Nemir, former Director of TASB Leadership Team Services, reviewed by Bill Rutherford, Consultant, TASB Leadership Team Services, February 2016

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[1] Tex. Educ. Code § 11.051.
[2] Tex. Educ. Code § 11.1511(b)(11).
[3] Tex. Educ. Code § 11.1511.
[4] Tex. Educ. Code § 11.1511(b)(2).