



# A New Era of **FISCAL** **ACCOUNTABILITY** Continues for School Corporations

By Terry Spradlin, Executive Director



**A** tenet espoused by the Indiana School Boards Association to school board members is that the financial oversight of school corporations and adoption of annual budgets are core responsibilities of their overall duties. While the superintendent is responsible for managing the day-to-day finances of their

school corporation, school board members must be accountable to ensure the financial solvency of their school corporation. With the issue of financial oversight of school corporations becoming a consistent statewide discussion topic, the Indiana School Boards Association (ISBA) is working to empower our membership to provide effective leadership in the budget development process.

To support board members in this role, ISBA will publish

a second edition of the Budgeting and Financial Oversight for School Board Members Resource Guide later this summer and will continue to provide seminar and conference curriculum on this important topic. It is important for ISBA members to understand overall school board responsibilities in the budgeting process and be aware of available tools and resources to guide them in the adoption of a financially sound budget on an annual basis.

The theme of the summer 2018 edition of ISBA's *The Journal* was, "School Boards and Fiscal Accountability." My column focused on a "new era" of fiscal accountability for school corporations as a result of Public Law 213-2018 passed by the Indiana General Assembly during its one-day special session on May 14, 2018. School board members and school administrators, during the Budgeting and Finance Seminar on June 12, 2019, held by ISBA, IAPSS, and IASBO, received updated guidance on the provisions of this law and how it will impact some school corporations in the coming months. Moreover, the state legislature passed many new laws impacting school corporations' budget

procedures and financial reporting, including adding oversight responsibilities for school board members. Indeed, we have entered into a new era of fiscal accountability that merits an update here.

## FISCAL AND QUALITATIVE INDICATORS

A new statute IC 20-19-7, titled School Corporation Financial Condition Analysis, was established as a result of P.L. 213-2018. Under this statute school corporations face increased scrutiny of its financial conditions via a fiscal and qualitative indicators dashboard that has been created by a state committee and first published on December 31, 2018. The intent of the law was to address the governance of two school corporations that were in financial distress and to establish a process to ensure other school corporations do not also become a distressed political subdivision.

### *The Fiscal and Qualitative Indicators Committee*

A Fiscal and Qualitative Indicators Committee was established under the law to accomplish the following objectives:

- ▶ Determine the fiscal and qualitative indicators to be used in a multi-year trend analysis for evaluating the financial condition of each school corporation;
- ▶ Determine the information that is to be presented in a fiscal and qualitative indicators dashboard to be published annual on the Distressed Unit Appeals Board website; and,
- ▶ Determine how frequently the indicators should be reviewed and updated.

The committee is comprised of seven members representing the following state agencies and stakeholder groups:

- ✓ The Distressed Unit Appeal Board (DUAB)
- ✓ The Indiana Department of Education (IDOE)
- ✓ The Department of Local Government Finance (DLGF)
- ✓ The State Board of Accounts (SBA)
- ✓ The State Budget Agency (SBA)
- ✓ The Management Performance Hub (MPH)
- ✓ The Indiana Association of School Business Officials (IASBO)

The committee held seven public meetings between June and December 2018 to discuss, identify, and select the fiscal and qualitative indicators to be included in the dashboard. A website is available with the annual dashboard reports for every school

corporation at: <https://www.in.gov/duab/2386.htm>

### **School Corporation Designations and Corrective Action Plans**

During the Budgeting and Finance Seminar on June 12, 2019, Courtney Schaafsma, Executive Director of the Distressed Unit Appeals Board (DUAB), presented an update on the Fiscal and Qualitative Indicators. Now that the indicators have been selected and the first annual dashboard has been published, DUAB has since been reviewing the data for every school corporation to identify school corporations that have demonstrated signs of financial distress and for which a “corrective action plan” may be necessary. Ms. Schaafsma shared that her recommendations to the DUAB and the State Budget Committee are to place all school corporations in one of three categories:

- 1) ASSESSMENT** – Additional analysis is warranted to understand the “drivers behind the school corporation’s fiscal indicators and how the school corporation is responding;”
- 2) OBSERVATION** – The school corporation is showing some warning signs and should be further reviewed with the next release of the indicators;
- 3) NO ACTION** – No further action is needed at this time (due to no concern with the financial condition of the school corporations in this category).

Ms. Schaafsma indicated that a combination of significant or ongoing declines in the Average Daily Membership (ADM) of students and declining or negative fund cash balances are the factors mostly likely to put a school corporation in the “Assessment” category. Once DUAB has determined the list of school corporations for “Assessment,” the DUAB Executive Director will contact the superintendent and school board president of each of the school corporations on this list. School corporation leaders are expected to cooperate in the assessment process and provide any information and documents requested by DUAB. This agency will make available on its webpage an assessment template that will be used to guide the conversation between school corporation officials and the DUAB Executive Director. If DUAB determines that a corrective action plan is necessary, the school corporation must develop and submit a plan within 90 days. Once established, the corrective action plan can be modified either by DUAB or at the request of the governing body or superintendent.

It shall be the responsibility of the superintendent to update the governing body on the implementation of the corrective action plan, which may occur in an executive session. The DUAB Executive Director shall meet with the superintendent, president of the governing body, and other administrators as needed at least once every 90 days to discuss the status of the corrective action plan.

### **Watch List Status**

If a school corporation opts not to submit a corrective action plan upon request, or does not take action to implement and fulfill the corrective action plan, it will be placed on a state “watch list.” What exactly this designation signifies is less clear in Public Law 213. However, it is apparent that this would be a precursor for a school corporation being identified as a “distressed political subdivision.” Further guidance from the state is anticipated to clarify under what conditions school corporations shall be removed from the “Assessment” status category, be relinquished from the corrective action plan, or be removed from the watch list. I will continue to provide ISBA members regular updates on this process in future e-Dition newsletters or here in *The Journal*.

## **2019 LAWS IMPACTING SCHOOL CORPORATION BUDGETING AND FINANCE**

The Indiana General Assembly passed many new laws that impact school corporation budgeting and financial reporting, some of which designate new board financial oversight responsibilities. These laws were reviewed during the ISBA Spring Regional Meetings and at the Budgeting and Finance Seminar. As school board members, please be aware of the following four laws that took effect on July 1, 2019:

### **▶ SENATE ENROLLED ACT 549 (PUBLIC LAW 101-2019) SCHOOL FINANCIAL MATTERS**

This law requires the superintendent of a school corporation to submit a written report on the financial condition of the school corporation to its Board of Finance. This report must include the fiscal and qualitative indicators for the school corporation determined under IC 20-19-7-4 (see previous section of this column for further explanation). The report must be received and reviewed at the annual meeting in January of the local Board of Finance for the school corporation.

### **▶ SENATE ENROLLED ACT 566 (PUBLIC LAW 235-2019) RESIDENTIAL HOUSING DEVELOPMENT PROGRAM**

This law permits a redevelopment commission to establish a residential housing development program (comparable to a Tax Increment Financing District) for the construction of new housing, or renovation of existing residential housing, if:

- ✓ The average of new, single family residential houses constructed during the previous three years has been less than one percent of the total of all single family homes within the area as of January 1 of the year in which the resolution establishing the program is adopted;
- ✓ The program may not take effect until the governing body of each school corporation affected by the program passes a resolution approving the program;
- ✓ The program has a 20-year expiration or sunset period.

### **▶ SENATE ENROLLED ACT 606 (PUBLIC LAW 118) TEACHER SALARIES**

This law amends the collective bargaining statute pertaining to the factors used to determine increases or increments in a local teacher salary range. In particular, compensation attributable to years of experience and additional degrees or graduate course credits, taken together, may account for no more than 50 percent (up from 33.33%) of the adjustment. In addition, the law allows teachers currently employed by the school corporation to receive a salary adjustment in comparison to the starting base salaries of new teachers.

### **▶ HOUSE ENROLLED ACT 1397 (PUBLIC LAW 254-2019) SCHOOL CORPORATIONS FUND TRANSFER REPORTING**

The law provides that before September 15 of any year, a governing body may pass an one-year resolution indicating that a portion or percentage of money transferred from the Operations Fund to the Education Fund may be considered Education Fund revenue for purposes of funding a collective bargaining contract and to determine whether an agreement would place the school corporation in a position of deficit financing. If adopted, a copy of the resolution must be submitted by the school corporation to the state Department of Local Government Finance on or before November 1.



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### ISBA PROGRAMS AND RESOURCE GUIDE

As aforementioned, to assist and guide school board members in the budget development process, ISBA developed the resource guide, *Budgeting and Financial Oversight for School Board Members* and an accompanying calendar checklist. This guide is intended to provide board members with a breadth of information, including: an overview of state agency roles and responsibilities, the annual financial calendar, state and local revenues, local expenditures and accounting, internal financial reporting, and provide reporting templates for school board members to use on a regular basis. Of particular note, we encourage school board members to use the “monthly checklist” to consider essential information and tasks that should be accomplished each month to ensure on-track development of the financially sound annual budget. The second edition of this resource guide will be available later this summer.

### CONCLUSION

Board members have the responsibility to receive regular reports on the financial condition of the corporation from the superintendent; then evaluate and monitor the fiscal decisions of the superintendent and their administrative team. School board members should inquire about budget variances, ask questions and seek thorough and timely answers about problematic situations or developing trends that signify financial distress. It is important for ISBA members to understand overall school board responsibilities in the budgeting process and be aware of available tools and resources to guide them in the adoption of a financially sound budget on an annual basis. I hope this column provides you with timely and useful information of some of the new financial reporting and oversight requirements bestowed upon you by the Indiana General Assembly. Please do not hesitate to let us at ISBA know how we can support your school board and school corporation with this core responsibility. ➤

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