



# Four Approaches to Assigning Costs to Central Levels vs. School Levels When Calculating Per-Pupil Expenditures

Now that the Every Student Succeeds Act (ESSA) requires all states to collect and report school-level expenditure information, state education agencies (SEAs) are considering whether to set statewide rules for local education agencies (LEAs) around how to assign expenditures. Specifically, many states are wondering whether they need to standardize a practice by which expenditures are assigned to the school level or to the LEA level as part of the state's financial transparency efforts.

First, to be clear, nothing in the new ESSA financial transparency requirement requires that a state develop uniform accounting/reporting policies such as whether to code a particular expense as a school-level or LEA-level expense.

Still, in the interest of uniformity, some SEAs are weighing the value of requiring that all districts follow a single set of rules that specify when an expenditure can be assigned to the district vs the school. For instance: Should the states set a policy that specifies whether expenditures for school psychologists always be assigned to schools or to the LEA? Among those locales with school-level expenditure coding, it turns out that districts make different decisions about where to assign the costs for such items. Some tend to assign expenditures for school psychologists, professional development, speech pathologists, technology, etc. to schools, while others assign them to central departments as a shared expense.

Clearly assigning more expenditures to the LEA would result in a lower school-level expenditure and vice versa. It is for that reason that in reporting expenditures by school, SEAs should require that all expenditures are captured and reported in the school's grand total expenditure sum – both those assigned directly to the school, and each school's share of the LEA shared expenditures. As shown in Table 1, if LEA-level expenditures are distributed back to schools on a per-pupil basis, we can ensure that the grand totals (circled in red) are comparable across districts and states, regardless of whether there is uniformity in how different expenditures are assigned to the school level or LEA level.

Table 1: Sample state data to demonstrate value of including grand total of expenditures

		School district: <u>Central District</u>			School district: <u>Valley District</u>			School district: <u>Charterama LEA</u>
		Maple Elementary	Ceder Elementary	LEA average	Green School	River Academy	LEA average	Charterama school #1
<b>School level</b>	Federal dollars	\$1,101	\$432	\$554	\$301	\$614	\$401	\$1,101
	State & local dollars	\$8,722	\$7,759	\$7,861	\$5,493	\$7,112	\$6,626	\$11,619
	School total	\$9,823	\$8,191	\$8,415	\$5,794	\$7,726	\$7,027	\$12,720
<b>LEA level</b>	Federal dollars	\$421	\$421	\$421	\$589	\$589	\$589	NA
	State & local dollars	\$4,597	\$4,597	\$4,597	\$5,573	\$5,573	\$5,573	NA
<b>Grand Total</b>		<b>\$14,841</b>	<b>\$13,209</b>	<b>\$13,433</b>	<b>\$11,956</b>	<b>\$13,888</b>	<b>\$13,189</b>	<b>\$12,720</b>

The question that remains is whether the state should specify a uniform approach to what gets accounted for at each school, versus what gets accounted for at the district and then gets included as a shared cost. This brief weighs the advantages and disadvantages of different state-wide approaches to decisions about where to assign costs. Each approach has various benefits and potential drawbacks to consider. However, regardless of approach, SEAs should ensure all expenditures are captured at some level – either directly at the school or at the central level and attributed to schools for reporting. (See box on What happens if LEA-level expenditures are left out of the reports).

## SEA role regarding expenditure assignment: Four Approaches

How and why to capture a school's share of central-office expenditures are questions that come up often in conversations with state agencies. Among states that are currently collecting and reporting school-level expenditures, no two states are

doing so in the exact same way. It's important for states to understand their options when it comes to creating new expenditure accounting practices, and the potential benefits and considerations of each. Four potential approaches are briefly explained in Table 2, and again in more detail in the subsequent pages.

**Table 2: Four approaches to the SEA role regarding expenditure assignment**

Approaches	Description
1. SEA is prescriptive	SEA specifies objects or functions to be coded to schools.
2. SEA sets conditions	SEA specifies a set of conditions for when costs are to be reported to the school level.
3. Complete LEA flexibility	LEAs determine what should be coded to the school directly, so that what can be compared is the grand total of the school's expenditures plus shared LEA costs.
4. Hybrid	SEA specifies some expenditures to be assigned to schools, but permits district discretion on others.

Each of the above-listed approaches comes with implications for the role of the SEA and the LEA, and the relationship between these two entities. Four questions can guide SEAs through the process of choosing an approach:

- 1) Who should make decisions about whether costs are shared and how they are assigned?
- 2) Who should answer the questions that will inevitably come up about expenditure reports?
- 3) What level of tolerance is there for variation in approaches to spending?
- 4) What considerations are there for implementation?

It is with these four questions in mind that the brief weighs the following approaches. In the end, no approach is likely perfect for all; instead states should evaluate the benefits and considerations of each, and select an approach that best fits the goals and values of the state.

**What happens if LEA-level expenditures are left out of the reports?** Without the LEA-level expenditures included in the grand total, spending figures for schools are less meaningful. Take, for example, the recently released financial transparency website for the Colorado Department of Education. The school-level totals reported for each school site do not include the school's portion of central-level expenditures; thus, making each school look relatively inexpensive compared to district averages, and ultimately misrepresenting the total public funds available for educating pupils at each school. A requirement that centrally coded expenditures are reflected in each school's total would help ensure comparisons can be drawn across Colorado schools using this data.

### Approach 1: SEA specifies objects or functions to be coded to schools

If a state already has a common chart of accounts (COA) that is used with fidelity statewide, there may be a push to build on the COA with uniform rules dictating whether an object, such as district reading coaches, should be assigned to a school or a central department. In this model, the SEA would go line by line through their COA, determining whether a particular expenditure should be recorded with a district- or school-location code. Of all the approaches an SEA can take, this one is by far the most prescriptive or "top-down."

<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>• Enables more comparability of the breakout of school-based expenditures and LEA shared expenditures across districts (note that the grand totals are comparable across schools and districts regardless of methodology).</li> </ul>
<b>CONSIDERATIONS</b>	<ul style="list-style-type: none"> <li>• Requires an apportioning methodology (i.e., how to divvy up a shared cost such as the school psychologist or professional development cost) if it must be assigned to schools.</li> <li>• Could be onerous for some LEAs, particularly small ones, to separate central-level costs from school-level costs.</li> <li>• May constrain LEA spending choices and stymie creativity and flexibility (such that the district may think it must provide professional development out of a central department or vice versa that it must deliver those funds to schools based on the accounting rules).</li> <li>• Stronger SEA role – SEA answers questions about why costs assigned to school vs central.</li> <li>• Requires more training of district financial staff.</li> </ul>

This model is straightforward and assumes it will provide for uniform data across all districts. If the rules are clear, everyone can follow them. However, in states that have this prescriptive structure, uniformity across the state can take years to achieve, if it is ever achieved at all. Another consideration is this model has the potential for limiting local creativity and flexibility. For example, if the state mandates that all personnel be coded to schools, then rural or under-resourced districts may not develop more effective ways to share people (and resources) across schools and districts. Charter schools may find that they are separating costs for functions done at the school site (e.g., human resources) and artificially coding them to a (seemingly fictional) central department. In addition, the detailed accounting structure requires significant resources at the SEA level to help LEAs adopt and implement the new policies.

#### Approach in Practice:

When the Rhode Island Department of Education developed their detailed COA in response to state legislative mandate, the SEA included site-level expenditure reporting as a part of the account structure. While some aspects of school-level

accounting are obvious – such as a full-time student being coded to that school—others are more challenging to determine. For those instances, Rhode Island developed pre-defined allocation methodologies that prescribed how to apportion costs to schools. For example, if a school district handles the bus transportation logistics, but the COA mandates that the expenditure be recorded at the school level, then the transportation cost is calculated based on total district ridership, and assigned to each school based on the number of students who ride the bus at each school. [Learn More: Developing Rhode Island's Uniform Chart of Accounts](#)

### Approach 2: SEA specifies a set of conditions for when school-level costs are to be reported

Some states might consider a set of conditions under which districts would assign costs to the school or central level so that the distinction might mean something in practice. For instance, the rule might be that costs for full-time school personnel must be coded to the school, or that costs are coded to schools only when the principal “controls” those expenditures.

<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>• Assigns a greater meaning to distinction between school and central level.</li> </ul>
<b>CONSIDERATIONS</b>	<ul style="list-style-type: none"> <li>• Existing account structure may not map to “conditions” (i.e., there may not be accounting notation for where control lies).</li> <li>• LEAs may vary in their interpretation of conditions.</li> <li>• Changes in districts strategy could shift accounting from year to year.</li> </ul>

Such an accounting strategy doesn't yet exist in any state in a uniform way, which may lead one to question the practicality of the strategy.

### Approach 3: LEAs determine what should be coded to the schools directly, so that what can be compared is the grand total of the school’s cost plus shared LEA costs

This approach is the least prescriptive from an SEA perspective, and gives LEAs control over where to code expenditures (again, remembering that all costs are accounted for at some level). In this model, we should expect to see variation in the proportion of expenditures directly accounted for to the school, and thus comparisons across schools and districts will need to be based on the grand total (see Table 1). The caveat about requiring totals is important because it ensures that the grand total expenditure can still be compared across schools statewide even when districts vary in their approach to allocating specific costs.

Because LEAs are given flexibility and choice around using the location codes, questions about spending decisions and spending reports should be answered by LEAs (not SEAs). That is an empowering, and potentially concerning, position for LEAs to be in, but also one that aligns with fiduciary responsibility. Districts are the ones with expenditure authority, and will thus need to be able to communicate with their communities about the choices they make regarding their expenditures.

<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>• Districts will face healthy questions about how money is assigned, and can change spending strategy and coding approach over time.</li> <li>• Lower requirements for training, implementation.</li> </ul>
<b>CONSIDERATIONS</b>	<ul style="list-style-type: none"> <li>• Grand totals are comparable across all schools, although the partial sums coded to school and central will vary.</li> <li>• Less uniformity in coding approaches statewide.</li> </ul>

### Approach 4: Hybrid: SEA specifies some expenditures to be assigned to schools but permits district discretion on others

Most states with school-level expenditure data have in practice a site-level accounting approach that is some hybrid of Approaches 1-3. Often, a few conditions are determined for when expenditures types must be at the school-level, and occasionally those conditions are accompanied by specific object and function codes. For instance, the SEA may require that, at a minimum, school staff salaries be coded to schools. But outside of the minimum specifications, it's up to the LEA to determine if additional expenditures can be coded down to the school level. Some states provide guidance for making those decisions, and specify which allocation methods to use based on the expenditure.

<b>BENEFITS</b>	<ul style="list-style-type: none"> <li>• District must assign some bare minimum of costs to schools.</li> <li>• Districts will face healthy questions about how money is assigned, and can change spending strategy and coding approach over time.</li> <li>• Lower requirements for training, implementation.</li> </ul>
<b>CONSIDERATIONS</b>	<ul style="list-style-type: none"> <li>• Grand totals are comparable across all schools, although the partial sums coded to school and central will vary.</li> </ul>

## Approach in Practice:

Mississippi has collected school-level expenditure data for years, and utilizes a hybrid approach to do so. Under Mississippi's accounting rules, districts are required to use a school-level operational unit code that specifies the school for expenditures that fall within a range of function codes. However, for any other expenditures, use of the school-level code is optional. If LEAs want to include the school-level code for other expenditures, they have the ability and infrastructure to do so, but it is not required. [Learn More: A Conversation with Donna Nester about Mississippi's Account Structure & Philosophy](#)

## Approach should advance SEA financial transparency goals

States should select an approach that serves them best – one that aligns with their agency's philosophy and meets the state's financial transparency goals. In an education landscape increasingly facing financial questions and concerns about equity, and whether dollars are yielding desired outcomes, it's critical that states have high-quality financial data to help drive decision-making. High-quality school level expenditure data can help states and districts better understand the relationship between spending and outcomes, and ultimately lead towards putting limited resources to work in ways that yield the greatest outcomes for students.

The four approaches outlined in this paper and summarized below are just the four that the Edunomics Lab has come across in working with a subset of states on this issue. It's possible there are other alternatives, and we welcome those considering or currently using varying approaches to contact us so we can feature more methods to help states meet their financial transparency goals. If you have any questions, or would like to share any comments, please contact Katie Hagan at [Katie.Hagan@georgetown.edu](mailto:Katie.Hagan@georgetown.edu).

### Summary of four Approaches shared

Approach	Benefits	Considerations
<b>1. Specify objects and functions to be coded to schools.</b>	<ul style="list-style-type: none"> <li>Uniformity in how school vs. central costs are assigned across all districts</li> </ul>	<ul style="list-style-type: none"> <li>Requires an apportioning methodology (i.e. how transportation gets divided across schools, if it is assigned to schools)</li> <li>Could be onerous for some LEAs, particularly small ones, to separate central from school-level</li> <li>May constrain LEA spending choices and stymie creativity and flexibility</li> <li>Large SEA role</li> </ul>
<b>2. Specify a set of conditions for when school-level costs are to be reported.</b>	<ul style="list-style-type: none"> <li>Provides some LEA flexibility</li> <li>Assigns meaning to distinction between school and central level</li> <li>Over time, uniformity in expenditure assignments will increase</li> </ul>	<ul style="list-style-type: none"> <li>Existing account structure may not map to conditions (i.e., reading coach could more easily map to central level, but would have to be at the school level if the rule is all personnel must be assigned to schools)</li> <li>LEAs may vary in their interpretation of conditions</li> <li>SEA role of validating data and enforcing uniformity</li> </ul>
<b>3. LEAs determine what should be coded to schools directly, so that what can be compared is the grand total of the school's cost plus shared LEA costs.</b>	<ul style="list-style-type: none"> <li>Districts will face healthy questions about how money is assigned, and can change approach over time</li> <li>Totals are comparable across all schools, even though amounts coded to school and central will vary</li> <li>SEA plays smaller role (and incurs fewer costs)</li> </ul>	<ul style="list-style-type: none"> <li>Less uniformity in coding approaches statewide</li> <li>Potential for gaming by LEAs, such as coding all expenditures to central</li> </ul>
<b>4. Hybrid: SEA specifies some expenditures to be assigned to schools but permits district discretion on others.</b>	<ul style="list-style-type: none"> <li>Maintain some SEA quality control without limiting LEAs by being too prescriptive</li> </ul>	<ul style="list-style-type: none"> <li>Could lead to some variation across districts depending on the local choices</li> </ul>

This publication is in the public domain. While permission to reprint is not necessary, reproductions should be cited as:

Roza, M., and Hagan K. (2017). *Four Approaches to Assigning Costs to Central Levels vs. School Levels When Calculating Per-Pupil Expenditures*, Financial Transparency Reporting Requirements, 4.

San Antonio, TX: Building State Capacity & Productivity Center at Edvance Research, Inc.

A copy of this publication can be downloaded from [www.bscpcenter.org](http://www.bscpcenter.org)

The publication is prepared by the BSCP Center under Award #S283B120042 for the Office of Elementary and Secondary Education of the U.S. Department of Education and is administered by Edvance Research, Inc. The content of the publication does not necessarily reflect the views or policies of the Office of Elementary and Secondary Education or the U.S. Department of Education nor does mention of trade names, commercial products, or organizations imply endorsement by the U.S. Government. ©2017 Edvance Research Inc.