

School Board Workshop:

June 10, 2013

Subject:

2013-14 Preliminary Budget Review

Presenter:

Gary Kawlewski

SUGGESTED SCHOOL BOARD ACTION:

No action required

DESCRIPTION:

Minnesota state statutes require Boards of Education to adopt school district budgets by June 30 each year. The 2013-14 preliminary budget is enclosed here in summary for the Board's approval at the June 24, 2013 meeting.

This budget represents our financial operating plan for the next year. It is also a key piece of our general financial planning for the district and certainly a key piece of our longer range financial plan. It is a financial guide for the next year. It reflects our district priorities and expectations. It is a guide for future activities, both financial and program. It is a management tool for district fiscal control, and allocates the districts resources and provides the guidelines for spending those resources. It also provides the legal authority as an authorizing document for the district staff to gather those resources together and spend them in a wise manner.

This budget is not just numbers, rows and columns. It is people and programs. It is maximizing opportunities for student learning. In this budget, we have tried to reflect the mission of the District and the Board's plans and priorities for the next year and beyond. It reflects input from Board members, district administration, building leadership, and other district staff.

The budget planning process is a long one – one that actually spans multiple years. One of the most important inputs in planning the budget is enrollment projections, since our basic funding is based on the number of students in our schools. After we settle into the school year next fall and get our first official enrollment numbers on October 1, 2013, we will review the budget and put together a revised budget for the Board to review at the same time as the financial forecast. We're taking our best guess about how many students we will see walk through the school building doors next September. We will monitor the budget closely throughout the year and provide updates to the Board as needed. In the spring, we will revise the budget once again as we adjust to the year in progress.

This budget reflects the following revenue assumptions: \$78 increase to the General Education Aid formula which represents a 1.5% increase, Integration Revenue at 86%, Literacy Aid revenue, a 1.5% increase in special ed revenue, ECSE-12 enrollment projection of 5,818, and \$110 and \$379 operating levy referendums. Severance for teachers and administrators is reflected in fund 45 as well as the second year of payments from the OPEB Trust to cover those costs. The expenditure assumptions include Superintendent and Special Education staffing contingencies of 4.3 and 2.0 FTE positions respectively, \$350,000 for capital, curriculum, and technology projects, \$330,000 for the class size reduction initiative, salaries and benefits based on contracts and expected market conditions, other expenditures (supplies & utilities) with 0-5% increases, continued cost containment initiatives, and the MDE approved Integration program at 100% of the 2012-13 budget allocation.

Summary of Funds

The **General Fund** (01) is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; district instructional and student support programs; expenditures for the superintendent, district administration, operations and maintenance; pupil expenditures; and capital expenditures. The General Fund budget shows total revenues of \$54,506,875 and total expenditures of \$55,466,376. Our forward-looking approach to budgeting has enabled the district to maintain its long-term financial stability, starting with the hiring freeze in 2007-08, two rounds of budget reductions, and a soft wage freeze in 2009-10. The General fund totals now include the capital outlay fund 05.

The **Food Service** fund (02) is used to record financial activities of a school district's food service program. Food Service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school community service activities. All expenditures relating to meal preparation must be recorded in the Food Service fund. Eligible expenditures include application processing, meal accountability, food preparation, meal service, and kitchen custodial service. The Food Service fund budget shows total revenues of \$3,092,650 and total expenditures of \$3,082,605 resulting in a projected fund balance at the end of the year of \$70,024.

The **Community Service** fund (04) is used to record all financial activities of the Community Education program. The Community Service fund is comprised of four components each with its own fund balance: community education, early childhood family education, school readiness, and adult basic education. The focus of community education is educational and personal growth activities and programs for all age levels that are not directly part of the K-12 education program. The budget includes 9 total sections of All Day Kindergarten Enrichment program. The Community Service fund budget shows total revenues of \$3,525,912 and total expenditures of \$3,596,816, resulting in a projected combined fund balance for all Community Service funds of \$120,418.

The **Debt Service** fund (07) is used to record revenues and expenditures for a school district's outstanding bond indebtedness. When a bond is sold, the school board must levy a direct general tax upon the property of the district for the payment of principal and interest on such bonds due. The revenue from such a tax and related state aid must be separately accounted for in a Debt Service fund. This fund is also used to record any refunding bonds that are sold during the year. We recognized the receipt of the alternative facilities bonds in 2012-13 in the building construction fund and will recognize the debt service revenue and expenditure of those bonds starting in 2013-14. The Debt Service fund budget shows total revenues of \$6,438,006 and total expenditures of \$1,389,156.

The **Building Construction** fund records revenues and expenditures for the Alternative Facilities project at Parkside Elementary. We started to use the fund in 2012-13 and will complete the project in 2013-14. We are showing interest earnings of about \$1,400 and expenditures of \$3,238,912.

The **OPEB Debt Service** fund (47) is used to record levy proceeds and the repayment of the outstanding OPEB bonds. On September 2009, a \$10.845 million OPEB bond was approved to pay for the district's other post-employment benefits and severance based on years of service. The OPEB Debt Service fund budget shows total revenues of \$519,543 and total expenditures of \$495,488.

The **OPEB Trust** fund (45) is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. We anticipate another promising year in the market and hope to see an increase of \$600,000 in the market value of our portfolio. We have begun to use some of the trust funds in the 2012-13 fiscal year and will do so again in 2013-14. As mentioned previously, we now record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$803,615 and expenditures of \$1,189,230 for a net decrease in the Trust of \$385,615.

Summary

The increase in funding from the State of MN for the next biennium, federal stimulus dollars, two years of budget reductions, stable utility costs, soft wage freezes, and maintaining basically the same level of programming have kept the district in decent shape compared to many other Minnesota school districts. Part of the budget development requires us to look ahead at the next few years. We do see additional revenue for the 2014-15 school year which should help us to maintain a stable fund balance position. However, it's clear that additional action will be necessary in the next several years to allow us to remain fiscally healthy and keep our fund balance where it needs to be. There are only two general variables in bringing a budget into balance – increasing revenues or reducing expenditures.

Our revenues are largely dependent on three variables – funding from the state legislature, student enrollment, and voter-approved levy referendums. Student enrollment for budget purposes is based on projections and therefore must be conservatively figured. Our current projected Kindergarten enrollment for 2013-14 is still down but similar to this year, leading us to be very wary of counting on increased enrollment to help balance the budget. We were able to pass the operating referendum renewal several years ago which will give us a stable funding base for the foreseeable future from the operating referendum levy.

On the expenditure side of the ledger, we have experienced significant reductions for 2008-09 and 2009-10. We were fortunate to be able to maintain the same level of programming for 12-13 as was in place for 11-12 which includes a slight expansion of the all day kindergarten option. The Board has also been able to set aside funds to help with technology, facilities repairs, and curriculum as well as funds to reduce class size for 2013-14.

Ultimately, the best long range solution lies in a stable and consistent revenue stream for the district, something that depends on local voter support and reasonable increases in state funding.

ATTACHMENTS:

- 2013-14 Budget Document
- Budget to Forecast Reconciliation 6.10.13