

School Board Workshop:

June 12, 2017

Subject:

**2017-18 Preliminary
Budget Review**

Presenter:

**Gary Kawlewski, Director
Finance and Operations**

SUGGESTED SCHOOL BOARD ACTION:

No action required

DESCRIPTION:

Minnesota state statutes require the Board of Education to adopt the school district budget by June 30th each year. The 2017-18 preliminary budget is enclosed here in summary for the Board's approval at the June 26, 2017 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, allocates the district's 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, 2017, 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 are using our best estimate of the number of 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:

- \$121 increase to the General Education Aid formula (\$6,188 in total) which represents a 2% increase over the prior year-January assumptions approved a 1% increase
- Literacy Aid revenue
- 2% increase in special education revenue-January assumption approved a 1% increase
- PreK-12 enrollment projection of 5,678 based on November 2016 projection
- Kindergarten projection assumes 99% of the students will attend the full day program
- \$189.55 board approved operating levy referendums.
- Integration and Achievement Revenue
- Includes Alternative Teacher Development program (QComp/PPD).

The expenditure assumptions include the following:

- Superintendent and Special Education staffing contingencies of 2.95 and 1.0 FTE positions respectively
- Continuation of the 6.0 FTEs for Class Size reduction-includes Marketing budget and social workers
- Continuation of the 6.0 FTEs for Location Equity Revenue
- Maintains 2009-10 approved staffing ratios also used for 2015-16
- Salaries and benefits based on contracts and expected market conditions
- Other expenditures (supplies & utilities) with 0-5% increases
- Continued cost containment initiatives
- Integration program
- Includes the Alternative Teacher Development program (QComp/PPD)
- \$400,000 to be allocated to assigned fund balance for technology set aside to be spent in the future
- Severance for teachers and administrators is reflected in fund 45 again for 2017-18.

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 \$63,763,372 and total expenditures of \$65,479,398. 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 district is intentionally spending down the fund balance this year to maintain recent additions in staff that added programming lost over the last few years.

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 \$3,302,861 and total expenditures of \$3,159,410 resulting in a projected fund balance at the end of the year of \$579,784. The revenues will include a recommendation for a \$.05 per meal price increase as required by the USDA. This increase in prices is reflected in the aforementioned numbers.

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 Community Service fund budget shows total revenues of \$3,824,950 and total expenditures of \$3,685,357 resulting in a projected combined fund balance for all Community Service funds of \$9,008.

The **Building Construction** fund records revenues and expenditures for the November 2014 bond issue approved projects. These projects will occur throughout the district over the next several years. This budget represents the estimated cost of the project to be completed through 6/30/18. We are projecting interest earnings and advertising revenue of \$159,000 and expenditures of \$3,068,812.

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. The Debt Service fund budget shows total revenues of \$6,421,787 and total expenditures of \$6,542,348. These numbers include the bond issue approved by our voters in November, 2014.

The **OPEB Debt Service** fund (47) is used to record levy proceeds and the repayment of the outstanding OPEB bonds. In 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. Those bonds were refunded in May of 2017. However, the new schedules won't come into play until the 2018-19 fiscal year. The OPEB Debt Service fund budget shows total revenues of \$1,273,691 and total expenditures of \$1,229,720.

The **OPEB Trust** fund (45) is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. We are projecting an increase of \$600,000 in the market value of our portfolio. We started using some of

the trust funds beginning in the 2012-13 fiscal year and will do so again in 2017-18. We record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$763,045 and expenditures of \$1,102,710 for a net decrease in the Trust of \$339,665.

The **HRA Trust** (18) fund is used for reporting contributions to an employee's HRA account upon hire and an annual contribution to the employee's HRA account for each year of service. These funds are held in an irrevocable trust with Mid-America through National Insurance Services. The employees have to meet certain vesting requirements before they can access these funds. The auditors require us to show the cumulative balance of the contributions plus any accrued interest in these trust accounts for those individuals eligible for the program. The actual payments to the trust are already included in the general fund expenditures shown previously in this report. The balance in the accounts is projected to be \$1,656,664 on June 30, 2018.

Summary

The increase in funding from the State of MN over the past few years and the board approved levy authority has allowed us to add back or maintain some programming. Stable utility costs, other cost containment measures, 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. The 2017 legislative session was a funding year and we did see a 2% increase in the formula for 2017-18 and 2018-19. We have been intentionally spending down the fund balance in an attempt to add back some previously lost programming and then maintain that level of programming. The Board has also been able to set aside funds to help with technology as a result of the approval of the bond issue. 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 board/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 2017-18 is down slightly which is leading us to be very wary of counting on increased enrollment to help balance the budget. The board approved levy authority and spending down our fund balance gives us the ability to maintain programming for next year. We will need to monitor our fund balance to make sure that we maintain a stable financial position.

On the expenditure side of the ledger, we have been fortunate to be able to add back some programming and maintain that level of programming for the last three fiscal years. We are intentionally doing so again for 2017-18 as well. 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:

- 2017-18 Original Budget 6.12.17
- 2017-18 Gen Fund Projected Fund Balances 6.12.17
- Board Budget Assumptions Memo 1.23.17
- Budget to Forecast Reconcile 17.18 6.12.17