

School Board Workshop:

June 28, 2011

Subject:

2011-12 Final Budget Review

Presenter:

Tina Burkholder and Gary Kawlewski

SUGGESTED SCHOOL BOARD ACTION:

Action required

DESCRIPTION:

Minnesota state statutes require Boards of Education to adopt school district budgets by June 30 each year. The 2011-12 preliminary budget is enclosed here in detail for the Board's approval at the June 28, 2011 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 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's people and programs. It's 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, 2011, we will review the budget and put together a revised budget for the Board to review at the same time as the financial forecast. These are unsettled times with regard to enrollments and we've actually seen a greater than expected drop in student enrollment during the course of this past school year. 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: no increase to the General Education Aid formula, ECSE-12 enrollment projection of 5,818, \$110 and \$379 operating levy referendums, and no OPEB trust contributions to the General Fund. The budget does include both revenue and expenditures (in general terms) from the Education Jobs Act. It also reflects the fact that all of the ARRA program dollars are gone for 2011-12 and have been spent. The expenditure assumptions include Superintendent and Special Education staffing contingencies, salaries and benefits based on contracts and expected market conditions, other expenditures (supplies & utilities) with 0-5% increases, continued cost containment initiatives, MDE approved Integration program, and the capital designation being spent in 2011-12.

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. A joint lease purchase with the City of Buffalo in the amount of \$500,000 was issued in March of 2011 to renovate the tennis courts at Buffalo Community Middle School. About half of the project will be completed by June 30, 2011 leaving the remaining portion to be completed in July and August of 2011. In our preliminary budget review on June 13, we had listed the project in the building construction fund. After discussion with our auditors, it was determined that the project needs to be recorded in the General fund instead since it is a capital lease. The General Fund budget shows total revenues of \$53,380,166 and total expenditures of \$52,964,549, resulting in an unreserved, undesignated fund balance of 14.44%. 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. To be consistent in our financial reporting going forward, 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 \$3,029,150 and total expenditures of \$3,015,750 resulting in a projected fund balance at the end of the year of \$169,242. Two significant factors impacting the Food Service budget for 2011-12 are food prices and the necessary increase in student and adult meal prices to offset the increasing costs. The budget includes an increase of 5¢ per meal, bringing the prices to \$2.20 for an elementary student lunch and \$2.40 for a secondary student lunch. The new adult lunch price will be \$3.20, also up 5¢. Breakfast prices will also rise 5¢.

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. New to the Community Service fund budget is the All Day Kindergarten Enrichment program. The Community Service fund budget shows total revenues of \$3,155,582 and total expenditures of \$3,144,364, resulting in a projected combined fund balance for all four Community Service funds of \$278,082.

The **Building Construction** fund (06) is used to record all operations of a school district's building construction program that are funded by the sale of bonds or capital loans. Construction costs for building and additions consist of advertisement for contracts; payments on contracts; installations of plumbing, heating, lighting, ventilating, and electrical engineering services and site work; travel expenses; furnishing expenses; and any other related costs. The Building Construction fund will not be in use for the 2011-12 school year.

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. The Debt Service fund budget shows total revenues of \$6,679,340 and total expenditures of \$6,713,265.

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. The OPEB Debt Service fund budget shows total revenues of \$519,688 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 \$1,000,000 in the market value of our portfolio. Due to the positive projection in fund balance in the general fund and in anticipation of the Ed Jobs Act funds being spent in the 2011-12 fiscal year, we are recommending to wait until the 2012-13 fiscal year to make our first transfer into the general fund from the trust.

Summary

The federal stimulus dollars, two years of budget reductions, stable utility costs, and soft wage freezes 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. When we do that, 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 (currently undetermined for the next two years), 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 2010-11 is still down but similar to this year, leading us to be very wary of counting on increased enrollment to help balance the budget. The referendum issue is two-fold – renewing our existing \$379 referendum and/or passing a referendum vote for new, additional money.

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 11-12 that was in place for 10-11 with the exception of the all day kindergarten option. Currently, the state is facing a potential government shutdown which could impact the funding streams that are available to us. It is quite possible that we may be facing a third round of reductions for the 2012-13 year. 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:

Budget Document