School Board Meeting/Workshop Date: **January 14, 2013**

Subject: **Financial Projections**

Presenters: **Gary Kawlewski, Director**
Finance and Operations

SUGGESTED SCHOOL BOARD ACTION:

Review of Financial Projections for 2013-14 through 2017-18

DESCRIPTION:

Overview

Long range financial planning and forecasting are integral functions of a school district. Forecasting procedures allow us to compile information and to make an educated prediction about our financial future as a district based upon current trends. It also attempts to determine how these events will impact the district and its operations in the future. Planning is using the forecasting information to determine how best to respond to the anticipated future.

This is our sixth year of using a financial planning model for the district that is also used by many other school districts in Minnesota. It was developed and is maintained by Jim Sheehan and Ann Thomas at SchoolFinances.Com.

Our financial planning model (FPM) uses the enrollment model (Enpro) that we used for our enrollment projections. This is the same enrollment projection model we've been using for the past few years. The FPM also incorporates staff and salary projections from Moreen Martell and uses the current funding laws and formulas to project the anticipated revenues the district will generate. The model also looks at anticipated changes in laws and formulas to help project future revenues.

A Look Back

The projection and revised budget for the 2011-12 school year predicted an undesignated, unreserved fund balance of $8,628,876 or 16.1%. After closing out the year, the actual result was an undesignated, unreserved fund balance of $8,136,874 or 15.60% plus some additional designations such as the capital set aside, 3rd party revenue, and an addition to our designation for severance payments.

A Look Ahead

The Minnesota legislature has convened already this month and is in the budget determination year for the biennium. This session is likely to be filled with discussions about a revamping of the education funding formula and restructuring of our tax system. The legislature did adopt a budget that added $50 to the General Education funding formula for 2012-13. It also added a new Literacy Aid component that adds approximately $375,000 for 2012-13 and beyond. The legislature also scheduled Integration revenue to sunset after the 2012-13 school year while still leaving integration transportation revenue in place for the current year and beyond. We anticipate that there will be a number of discussions that will try to tweak some of the funding based on a slightly more positive November forecast. However, the state is still faced with a budget deficit at the end of the current biennium. Our budget management efforts over the past several years will position us to get through the next few years assuming the State economy continues to trend upward and the Legislature does not hit us with funding reductions. Our fund balance and keeping our belts tight should help us manage at least one more year without the need for major budget reductions.

We have put together several scenarios for looking ahead with financial projections over the next five years. You can see that the last two to three years of this projection do see significant drops in the projected fund balance, and we will need some revenue or expenditure components to change in order to avoid that financial hole.

Attachments

The first page of the attachments gives you the basic assumptions that drive the numbers in the model. The first set of information is the enrollment assumptions. Our enrollment for the financial forecast is a little more conservative than the enrollment that was presented in November. This is done to reflect the drop that normally occurs at the high school during the year and allows for the fact that early childhood special education (ECSE) average daily membership numbers are always less than the actual number of students in the program.

The next section of the first attachment shows our staffing assumptions. Staffing ratios were determined in 2009-10 and will remain the same going forward. They will adjust accordingly as enrollment changes each year. The superintendent has 4.3 FTE staffing contingency positions and special education has 2.0 FTE positions available as well. The last section of this attachment shows a summary of the revenue, expenditure, and fund balance assumptions used in the model. It also shows other factors that could affect the forecast going forward.

The second attachment shows the financial detail of the five scenarios we are reviewing. The first scenario is the current base plan with General Education formula changes of 0%, 0%, 0%, 0%, and 0%. The second scenario adds 1% to the General Education formula allowance in the second year. The third scenario adds a 1% increase the first and second years. The fourth scenario shows a 1% increase in the formula allowance for 2014-15 (the second year), but removes the Integration revenue and expenditures and the open enrolled students who are in those programs. The last scenario shows the Integration revenue at 60% of its current funding level for all years and assumes 60% of the students will still be here for all years. It also adds a 1% increase the first and second years.

Salary and benefit increases are projected based on expected market conditions and comparable settlements. Supplies, transportation, utilities, equipment, travel, and other expenditures are estimated to increase 0-5% for all five years. The OPEB trust is shown to be used starting in 2012-13. Therefore, all allowable costs for the Trust are no longer in the general fund. We still have some severance costs that will remain in the general fund along with the costs of the new retiree insurance program for teachers and administrators. The capital set aside is expected to be used by 2014-15.

ATTACHMENTS:

Financial Forecast 2013-14 through 2017-18

Fund Balances as a result of Financial Forecast