

School Board Worskshop:

June 26, 2012

Subject:

2012-13 Final Budget Review

Presenter:

**Tina Burkholder
Gary Kawlewski**

SUGGESTED SCHOOL BOARD ACTION:

Board action required

DESCRIPTION:

Minnesota state statutes require Boards of Education to adopt school district budgets by June 30 each year. The 2012-13 final budget is enclosed here in summary for the Board's approval at this 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, 2012, 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: \$50 increase to the General Education Aid formula, the new Literacy Aid revenue, ECSE-12 enrollment projection of 5,738, and \$110 and \$379 operating levy referendums. As we have continued to study the OPEB trust contributions to the General Fund, we actually end up moving expenditures from the General fund for severance and retiree insurance payments into the OPEB Trust rather than transferring funds into the general fund. The net result on fund balance remains the same. The budget also reflects the fact that all of the ARRA

program dollars and Ed Jobs funds are gone for 2012-13 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, the MDE approved Integration program and the elimination of the STEM grant.

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 \$53,224,864 and total expenditures of \$53,189,995, resulting in an unreserved, undesignated fund balance of 16.2%. 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 \$3,000,400 and total expenditures of \$2,962,320 resulting in a projected fund balance at the end of the year of \$187,626. Three significant factors impacting the Food Service budget for 2012-13 are food prices, the necessary increase in student and adult meal prices to offset due to federal requirements and the implementation of the new food content guidelines. The budget includes an increase of 5¢ per meal, bringing the prices to \$2.25 for an elementary student lunch and \$2.45 for a secondary student lunch. The new adult lunch price will be \$3.25, 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. The budget includes three additional sections of All Day Kindergarten Enrichment program. It also includes the addition of the Little KidKare childcare program at the Montrose Education Center. The Community Service fund budget shows total revenues of \$3,680,040 and total expenditures of \$3,746,819, resulting in a projected combined fund balance for all four Community Service funds of \$232,843.

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 refunding bonds in 2011-12 and will recognize the actual refunding expenditure side of the transaction in this budget cycle. The Debt Service fund budget shows total revenues of \$6,658,302 and total expenditures of \$41,512,425.

The **Alternative Facilities Building Construction** fund (16) is used to record all operations of a school district's building construction program that are funded by the sale of bonds, capital loans, or the Alternative Bonding Program. Construction costs for building and additions consist of advertisement for contracts; payments on contracts; installations of plumbing, heating, lighting, ventilating and electrical engineering services; travel expenses; decorating expenses; and any other related costs. The revenues and expenditures are for the HVAC upgrades that will be done at Parkside Elementary. The Building fund budget shows total revenues of \$3,804,000 (bond proceeds and interest earnings) and total expenditures of \$780,000, (the estimated costs of the work to be done prior to June 30, 2013). The remainder of the work will be completed during the 2013-14 school year. The total cost of the project is estimated to be \$3,800,000.

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 \$325,000 in the market value of our portfolio. We will also receive \$307,202 in retiree insurance contributions. We will begin to use some of the trust funds in the 2012-13 fiscal year. As mentioned previously, we will record severance and retiree payments in the Trust fund rather than transfer the funds to the General Fund. We estimate the payout from the Trust to be \$1,240,121. The net effect is that the Trust is projected to decrease by \$607,919.

Summary

The 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. 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 determined for 2012-13 and undetermined for 2013-14), 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 2012-13 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 last fall 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 2012-13 as was in place for 2011-12 which includes a slight expansion of the all day kindergarten option.

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 Presentation 12-13

Budget 12-13