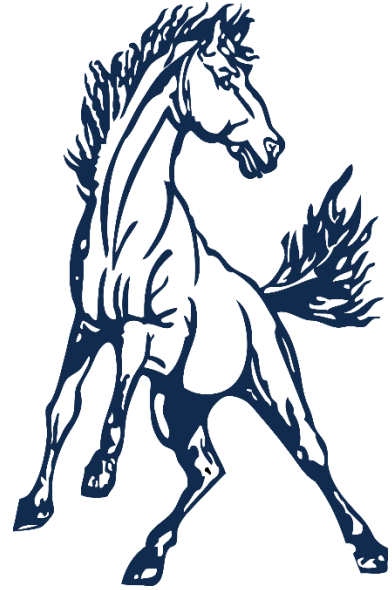


Belmond-Klemme Community School District

Financial Health Analysis

Presented to the
Belmond-Klemme Board of Directors
Thursday, January 20, 2022



Prepared for the
Belmond-Klemme Board of Directors

Prepared by
Dan Frazier, Superintendent

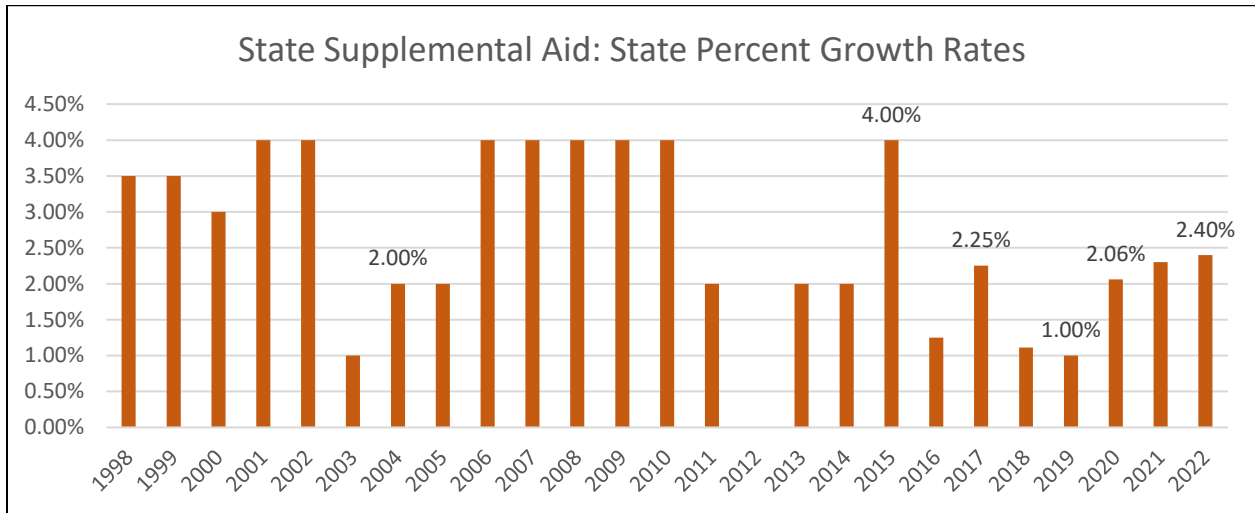
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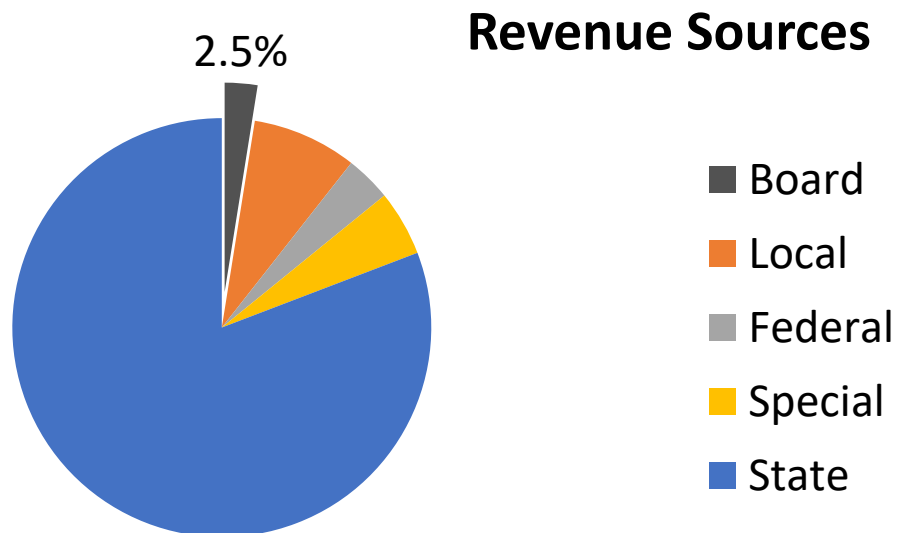
Fact One: The Iowa Legislature Controls Budget Growth.

Unlike city councils and county commissions, Iowa’s public schools do not control their increases in funding. Each year, the Iowa Legislature determines the annual increase in dollars available per student. This is called “Supplemental State Aid.”

The Supplemental State Aid granted by the state has not kept pace with the rate at which either the state economy has grown or the rate at which state revenues have grown.



Only 2.5% of budget revenue for the Belmond-Klemme school district is controlled by the school board.



Fact Two: Equalization in Funding

In the 1970’s, the State Legislature established a law that the “cost per pupil” across the state will *be equal* to ensure every student equal access to a quality education. The cost per pupil for Belmond-Klemme CSD for the last few years is listed below along with the projection for Fiscal Year 2023.

Fiscal Year	Cost per Pupil	Growth Rate	Rate of Inflation	
2011	\$5,888	2.00%	3.14%	
2012	\$5,888	0	2.08%	
2013	\$6,006	2.00%	1.47%	
2014	\$6,126	2.00%	1.61%	
2015	\$6,371	4.00%	0.12%	
2016	\$6,451	1.25%	1.27%	
2017	\$6,596	2.25%	2.14%	
2018	\$6,669	1.11%	2.44%	
2019	\$6,736	1.00%	2.40%	
2020	\$6,880	2.06%	1.60%	
2021	\$7,048	2.30%	2.00%	
2022	\$7,227	2.40%	7.00%*	<i>*Projected</i>
2023	\$7,371*	2.00%*	7.00%*	<i>*Projected</i>

Of course, funding is not equal across the state . . .

In fact, of Iowa’s 327 public school districts, roughly half receive a cost per pupil greater than Belmond-Klemme, which is at the state minimum. Listed below are some area schools and what they are receiving this year in per-pupil funding.

Area Per-pupil Amounts are as Follows:

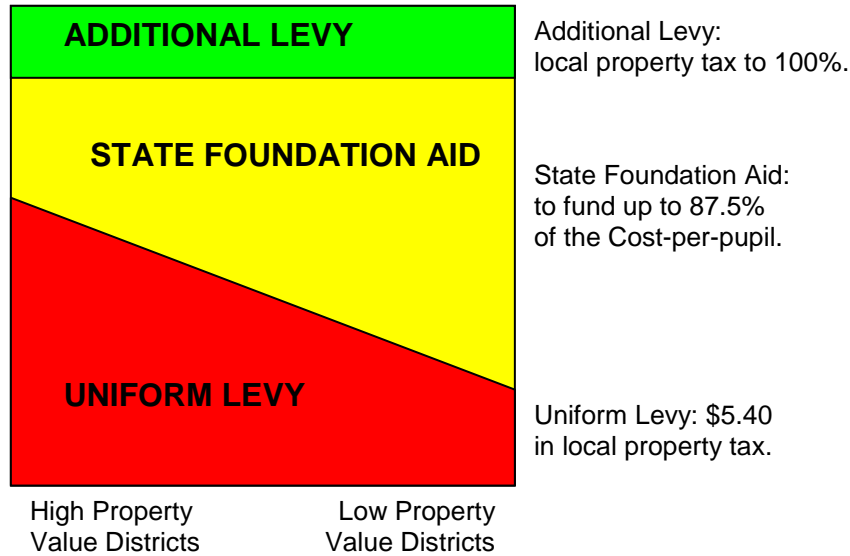
- \$7,372 Lu Verne
- \$7,367 CAL
- \$7,323 Northwood-Kensett
- \$7,315 Eagle Grove
- \$7,306 North Iowa
- \$7,269 Mason City
- \$7,265 Des Moines
- \$7,253 West Fork
- \$7,232 Clarion-Goldfield-Dows
- \$7,230 Algona
- \$7,227 Garner-Hayfield-Ventura
- \$7,227 Fort Dodge
- \$7,227 West Hancock
- **\$7,227 Belmond-Klemme**

What could we do with another \$105,000?

That is how much more we would have if we were funded at the same rate as our neighbor to the east, CAL.

Fact Three: Balance

The ratio of property tax and state aid supporting a district’s budget varies by district. The graphic below is intended to depict a sliding scale where the less revenue the \$5.40 levy generates the more the state sends the district in Foundation Aid.



Districts with higher taxable valuations per pupil will have lower overall tax rates, will generate more property tax dollars on a per pupil basis, and will generate less state aid through the school aid formula on a per pupil basis than districts with lower taxable valuations per pupil. Districts with lower taxable valuations per pupil will generally have higher overall tax rates, will generate less property tax dollars on a per pupil basis, and will generate more state aid through the school aid formula than districts with higher per taxable valuations per pupil.

The table below provides information pertaining to taxable valuation per pupil for area schools.

District	Budget Enrollment	Net Taxable Valuation Per Pupil	District Total Tax Rate
Garner-Hayfield-Ventura	836	\$ 711,087	\$ 12.19
CAL	270	\$ 592,934	\$ 12.79
West Fork	750	\$ 585,099	\$ 11.53
West Hancock	564	\$ 566,253	\$ 10.57
Clarion-Goldfield-Dows	985	\$ 544,964	\$ 13.90
Belmond-Klemme	756	\$ 392,206	\$ 12.93
Hampton-Dumont	1,108	\$ 342,597	\$ 14.69
Eagle Grove	972	\$ 318,080	\$ 14.89
State Median	682	\$ 448,775	\$ 13.09

You will note that the student enrollment of B-K is above the state median, but our Net Taxable Valuation Per Pupil is below the state median. This lower valuation, combined with paying off a building bond, results in a tax rate above the median.

Fact Four: Restricted Funds

“Restricted funds” cannot be used to support the General Operating Fund.

The General Operating Fund is the fund that provides for the instructional needs of the students. It pays the salaries, purchases the textbooks, fuels the buses, heats the buildings, and pays for maintenance and upkeep. It is the fund that is determined primarily by the student enrollment count. Other funds are “restricted funds” and cannot be used to support the General Operating Fund.

The following is a list of some (but not all) of the restricted funds which the Belmond-Klemme school board currently has in place:

- **Management Fund.** This funds early retirement, unemployment compensation, tort liability, and insurance (except for health insurance).
- **Physical Plant and Equipment Levy (PPEL).** This funds asbestos projects, purchase of grounds, improvement of grounds, purchase of buildings, purchase of equipment exceeding \$500 in value, payment of building debts, et cetera.
- **Secure an Advanced Vision for Education (SAVE).** Similar to the PPEL, this fund comes from the one-cent state-wide sales tax.
- **Student Activity Fund.** This supports our school co-curricular activities program.
- **School Nutrition Fund.** The school breakfast and lunch program.
- **Gifted and Talented Fund.** This funds the program for our Gifted and Talented students.
- **At-risk/Dropout Prevention Grant.** This funds our program for drop-out prevention and other at-risk students.

Money from the General Fund can be moved into any of these funds (except the Activity Fund) to supplement them; however, money from these funds cannot be moved into the General Fund for any reason. State law demands this.

The Belmond-Klemme board currently has the Cash Reserve Levy in place to replace revenue lost from the General Fund due to delinquent taxes, tax exemptions (such as the Homestead Tax Exemption), or state assessments (such as the Juvenile Detention Home assessment). It can also be used to fund a deficit in our special education program in those years we run a deficit.

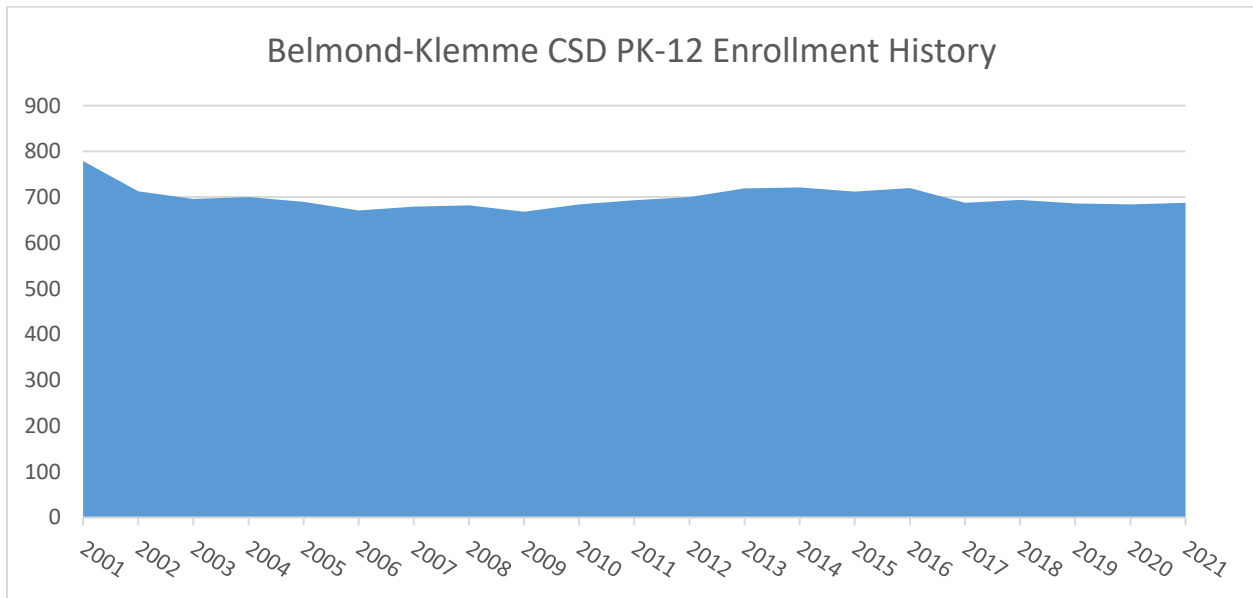
The Cash Reserve Levy, however, cannot be used to exceed the maximum spending authority imposed on Belmond-Klemme by the State of Iowa.

Enrollment Trend

Formula: None.

Financial Information and Computation:

Year	Certified Enrolled	Non-res. Students	Served PreK – 12
October 2017	798	27	688
October 2018	792	43	694
October 2019	775	45	686
October 2020	766	51	684
October 2021	756	57	688



Purpose: The number of students enrolled on October 1 determines the school district’s budget.
(More students may enroll after this date, but the budget is set.)

Trend: Steady

Target: Prosperous districts often enjoy steady to rising enrollment.

Need/concern: After a sharp decline in student population at the beginning of the 21st Century, Belmond-Klemme Schools has experienced a remarkably steady enrollment trend as most of the rest of the state experienced declining numbers.

Corrective Action: None at this time.

Financial Solvency Ratio

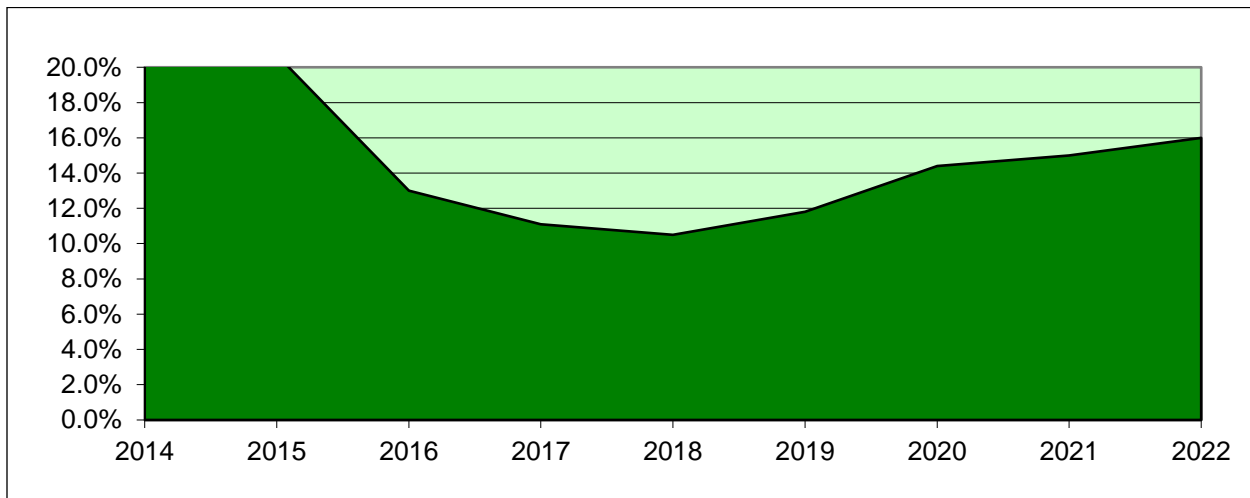
Schools need a cash reserve because state aid does not arrive on a regular basis.

Formula:
$$\frac{\text{Assigned + Unassigned General Fund Balance}}{\text{Actual Total General Fund Revenue - AEA \$}} = \text{Financial Solvency Ratio}$$

Financial Information and Computation:

Year	Ratio
2018	10.5%
2019	11.8%
2020	14.4%
2021	15.0%
Projected This Year	16.0%

Note: the state median in FY20 was 14.4%.



Purpose: A solvency ratio is a mathematical formula used to determine if a school, business, or person has adequate cash on hand to cover all expenses.

Trend: Slightly Rising

Target: The Iowa Association of School Boards recommends these targets:

▪ Target Solvency Position	5 to 10 %
▪ Acceptable Solvency Position	0 to 4.99%
▪ Solvency Alert	-3 to 0%
▪ Solvency Concern	-3% & lower

Need/concern: We remain in a strong cash position.

Corrective Action: Adjust with the cash reserve levy as necessary.

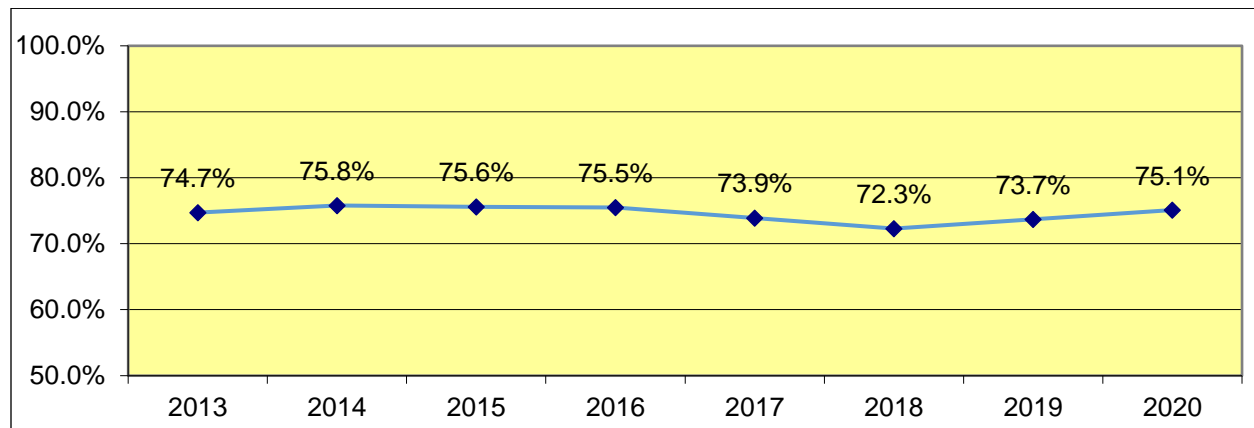
Employee Cost Ratio

The Belmond-Klemme Community School District budget is “people intensive” with approximately 75% of all costs allocated to employee salaries and benefits.

Formula:
$$\frac{\text{Wage and Benefit Costs}}{\text{Total General Fund Expenditures}} = \text{Employee Cost Ratio}$$

Financial Information and Computation:

Year	Ratio
2016	75.5%
2017	73.9%
2018	72.3%
2019	73.7%
2020	75.1%



Purpose: This measures the percentage of the budget dedicated to staffing costs which is the single largest category of expenditures in the general fund.

Trend: Steady

Target: 80% or less. (The current state median is 77.8%.)

Need/concern: The Employee Cost Ratio is particularly affected by the rising cost of health insurance benefits that are provided to the district’s labor force. The cost of health insurance for Iowa school employees has risen in recent years at rates sometimes over 60% for some schools. At Belmond-Klemme, our health insurance rates actually dropped slightly by 0.19% for the current year.

Corrective Action: Adjusted by reducing staff or increasing revenues or both.

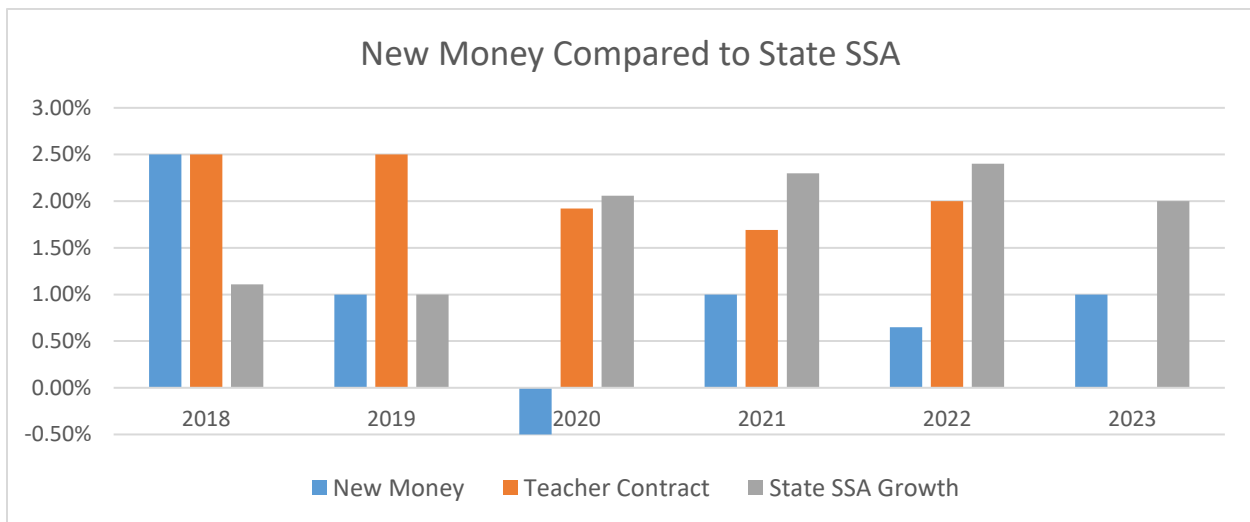
New Money Report

Formula: None

Financial Information and Computation:

Year	Enrolled	New Money	New Money Percent	Bargained Contract Increase	SSA - State Percent of Growth
2019	797.6	\$54,166	1.0%	2.50%	1.00%
2020	791.5	\$(25,208)	-0.5%	1.92%	2.06%
2021	774.9	\$54,455	1.0%	1.69%	2.30%
2022	766.0	\$35,907	0.6%	2.00%	2.40%
2023*	756.0	\$55,359	1.0%		2.00%*

*Forecast for Next Year



Purpose: Schools are people-dependent organizations. Eighty percent (80%) of a school’s budget goes toward personnel costs such as salaries, health insurance, and other employee benefits. Consequently, we rely on new money for pay raises and to meet the increasing costs of benefits.

Trend: Falling

Target: Set budget targets proportionally to new money allocations from the state.

Need/concern: Consider new money allocations when planning for pay increases for the coming year.

Note: A one-percent annual raise for both faculty and staff costs approximately \$50,000.

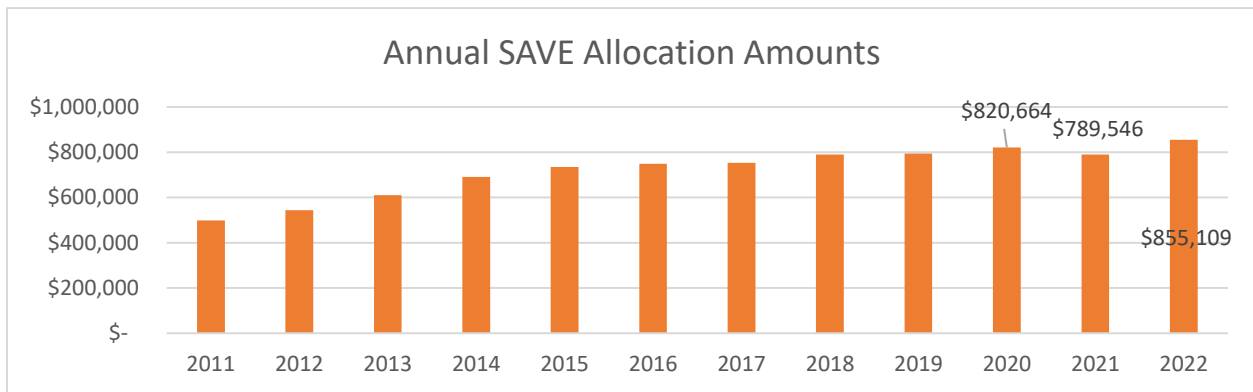
Corrective Action: Monitor budget increases.

SAVE: The One-cent Sales Tax

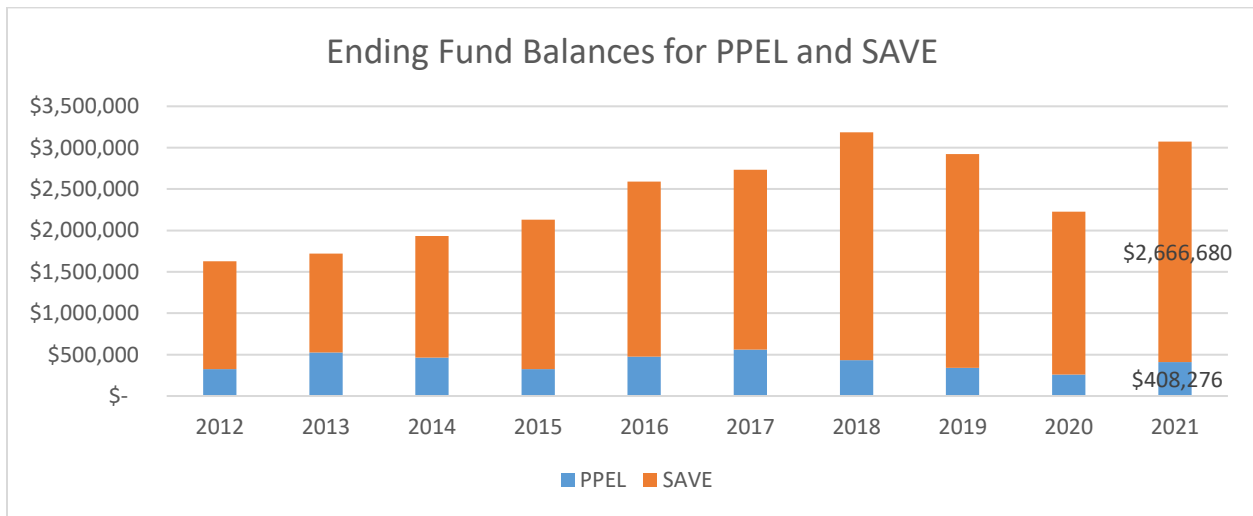
Secure an Advanced Vision for Education (SAVE) is a one-cent sales tax source of funding for school district infrastructure needs or property tax relief.

(Note: It was once called Local Option Sales Tax, but the acronym spelled *LOST*. That did not sound like a good label for school tax dollars, so it was renamed *SAVE*. It sounds better.)

Annual SAVE Allocation Amounts:



History of Year-ending Fund Balances for Facilities and Equipment:



Trend: Reversing. Although it appears our ending SAVE balance is \$2.7 million, this includes \$1.9 million in bonds. **Our balance is closer to \$780,000.**

Need/concern: We are in the middle of a major reinvestment in our secondary school building, and we need to see it through.

Corrective Action: Continue investing strategically in district facilities.

Unspent Authorized Budget to Maximum Authorized Budget



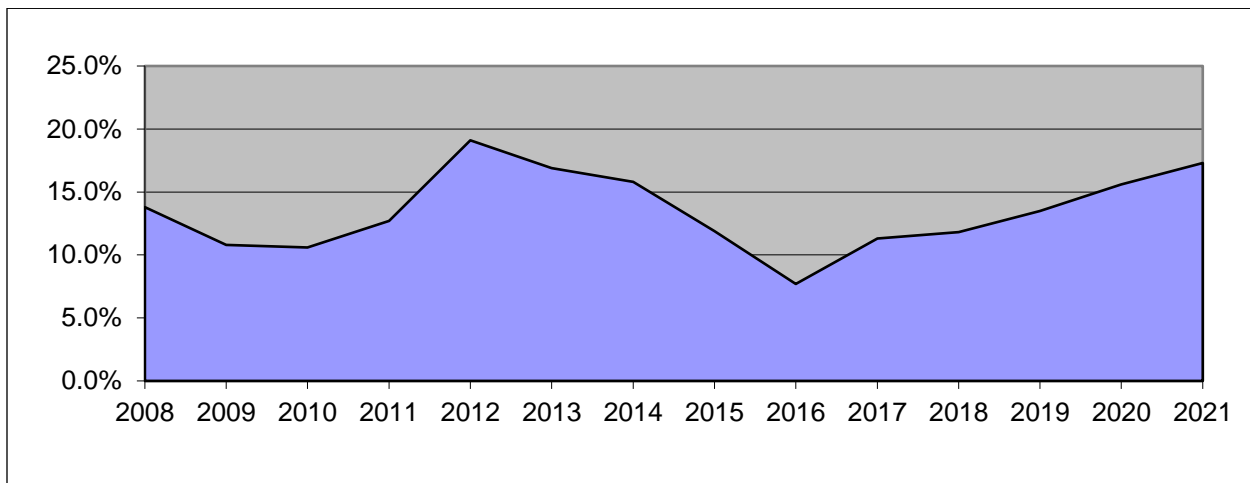
It is unlawful for a school district to exceed its Maximum Authorized Budget which is the same as having a negative Unspent Authorized Budget.

Formula:
$$\frac{\text{Unspent Authorized Budget}}{\text{Maximum Authorized Budget}} = \text{Unspent Balance Ratio}$$

Financial Information and Computation:

Year	Unspent Balance Ratio
2016	7.7%
2017	11.3%
2018	11.8%
2019	13.5%
2020	15.6%

Note:
The state median was 22%.
The state average was 23%.



Purpose: Similar to the solvency ratio, a school district needs to maintain a percentage of unspent balance that is adequate to meet all possible costs in a single year.

Trend: Rising.

Target: IASB recommends that the unspent balance exceed 5% and should be maintained between 5% and 10% of total general fund spending authority.

Need/concern: There is concern as our present rate of funding from the state is not sufficient to cover the rising costs of goods, services, and employee costs.

Corrective Action: We need to control expenses.

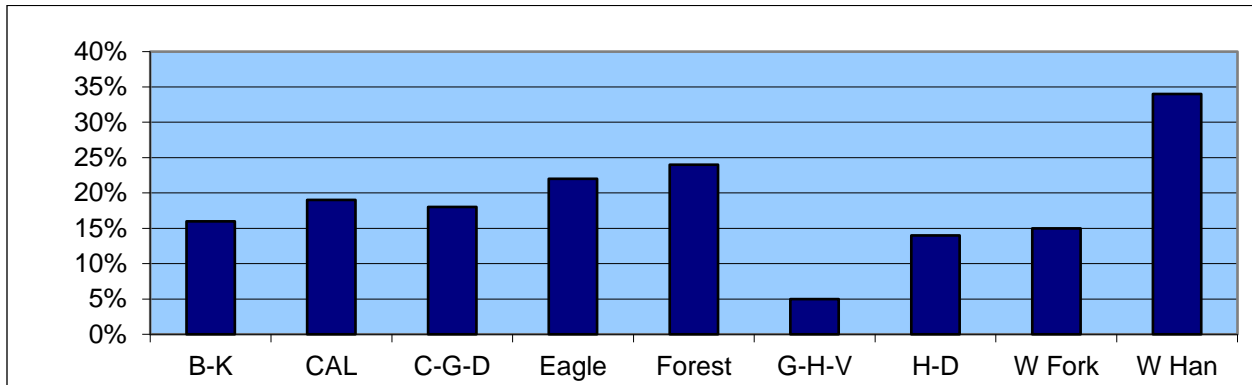
Unspent Authorized Budget (UAB) Comparison

Formula:
$$\frac{\text{Unspent Authorized Budget}}{\text{Maximum Authorized Budget}} = \text{UAB Ratio}$$

Financial Information and Computation (FY 2020):

Area School	UAB Balance	Balance %
<i>Belmond-Klemme</i>	\$1,773,844	16%
CAL	\$844,702	19%
Clarion-Goldfield-Dows	\$2,826,719	18%
Eagle Grove	\$3,182,683	22%
Forest City	\$4,051,310	24%
Garner-Hayfield-Ventura	\$600,902	5%
Hampton-Dumont	\$2,662,269	14%
West Fork	\$1,531,061	15%
West Hancock	\$3,559,342	34%

Note:
The state minimum was 0.5%.
The state maximum was 62%.



Purpose: One way to judge the financial health of a district is to compare it to other school districts in the area and across the state.

Trend: Comparable to slightly lower.

Target: IASB recommends that the unspent balance exceed 5% and should be maintained between 5% and 10% of total general fund spending authority.

Need/concern: A district needs a sizeable unspent balance in order to meet contingencies and the normal fluctuation of a district’s finances; however, the largest unspent balance is not necessarily the best unspent balance. A large unspent balance indicates funding available to a district which is not being fully utilized.

Corrective Action: None at this time.

Projected Future Supplemental State Aid (SSA) Calculations

It is equally as important to gain an understanding of where a school district may be headed, financially speaking, into the future.

Financial Information and Computation:

The Iowa Association of School Boards (IASB) provides a tool to estimate the amount of “new money” (change in regular program funding from year to year) a school district may receive over the next five years using assumptions on likely enrollment and SSA changes.

The table below is an extract of that IASB forecasting tool.

Fiscal Year*	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Budget Enrollment Projections	766.0	756.0	745.1	708.7	696.0
State Supplemental Aid %	2.40%	2.00%	2.00%	2.00%	2.00%
State Cost per Pupil	\$7,217	\$7,372	\$7,519	\$7,669	\$7,822
Budget Guarantee	0	\$18,009	\$26,557	\$223,411	\$45,259
“New Money”	\$35,907	\$55,359	\$37,724	\$29,467	-\$169,060
Percent New Money	0.65%	1.00%	0.67%	0.52%	-2.99%

Note: No SSA state percent of growth rates have been established at this time for the fiscal years 2023 through 2026.

* Enrollments for FY 2023 through FY 2026 are adjusted from DE enrollment projection as of May 2021.

Trend: Two-percent (2.0%) SSA on an on-going, annual basis is neither keeping pace with inflation nor supporting school districts and keeping them whole when most schools are experiencing declining enrollment.

Need/concern: With 2.0% SSA projected over the next five years, combined with our Iowa DE enrollment forecasts, we could be looking at a budget crisis in four years.

Corrective Action: We need to control expenses and operate within our limitations.

IASB recommends that school boards use this information to answer the question:

“Will we have sufficient additional resources in the future or do we need to consider making strategic budget reductions now to stay financially healthy into the future.”