

School Board Meeting/Workshop Date:

January 12, 2015

Subject:

Financial Projections

Presenters:

**Gary Kawlewski, Director
Finance and Operations**

SUGGESTED SCHOOL BOARD ACTION:

Review of Financial Projections for 2015-16 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 seventh 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 Orr 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 2013-14 school year predicted an undesignated, unreserved fund balance of \$8,657,395 or 15.66%. After closing out the year, the actual result was an undesignated, unreserved fund balance of \$9,545,242 or 17.11% plus some additional designations such as the capital set aside, 3rd party revenue, student activities, and carryover balances for various sites. The final unassigned total was higher than projected, in part, due to a change in the severance pay commitment policy. This policy change added an additional \$614,649 to the undesignated/unassigned fund balance which was not included in the forecast.

A Look Ahead

The Minnesota legislature will convene in February and is in the funding year for the biennium. The governor has stated publicly his intent to better fund education in his second term. The 2014 Legislature made some minor funding changes for teacher development, changes to the now called local option revenue, and created higher levels of

equalization. We were able to begin to add back some positions that were reduced a few years ago.

The state forecast projects a surplus for the biennium and the aid shift and the property tax shifts have both been repaid by the end of the 2013-14 fiscal year. The passage of the bond issue in November will create some flexibility in the operating capital fund for the next few years. We are also creating an assigned fund balance for technology purchases that will build up to a total of about \$2,000,000 starting with the 2014-15 year through the 2018-19 school year. These are expenditures that would otherwise come out of the general fund budget but will now be able to be shifted to the construction fund. We will then spend down that built up assigned fund balance for technology over the following five years. We are hoping the State's economy continues to trend upward and the Legislature does not hit us with funding reductions. Our fund balance and continually monitoring any staffing changes should help us manage at least one more year without the need for budget modification discussions.

Our original budget for 2014-15 showed an overall drop in fund balance of \$1,622,830. The revised budget, done in preparation for the forecast, shows that we will be \$437,033 better than this for a net decrease of \$1,185,797. However, this net change includes shifting (reducing general fund expenditures) \$400,000 from the general fund into the construction fund as we create the assigned fund balance indicated above. Our revised unassigned fund balance is projected to go down \$955,347 for 2014-15. Our original projection showed this number dropping \$1,319,790. The majority of these changes comes from the aforementioned technology shifts. The balance comes in changes to designated or assigned fund balances as a part of the budget revision. This change would drop our unassigned fund balance from 17.11% down to 14.53%. Our original budget showed our fund balance at 12.64%.

We have put together several scenarios for looking ahead with financial projections over the next three years. The three primary moving parts in the scenarios are:

1. Changes in the general education formula
2. Changes in the special education formula
3. Retention of the 6 FTE positions added from the Location Equity Revenue

The last two scenarios also give you a peak at what the fund balances would look like if we would underspend our expenditures in a similar fashion as we did in 2013-14. Even with those looks at underspending, you can see that the last two years of the projections do see drops in the projected fund balance. In all likelihood, we will need some revenue or expenditure components to change in order to stay within our fund balance policy.

ATTACHMENTS:

**ISD877 BHM Forecast 2015
Base Plan Summary
Scenario #4 Summary**