

School Board Workshop:

June 10, 2019

Subject:

2019-20 Preliminary
Budget Review

Presenter:

**Gary Kawlewski, Director
Finance and Operations**

SUGGESTED SCHOOL BOARD ACTION:

No action required

DESCRIPTION:

Minnesota state statute requires the Board of Education to adopt the school district budget by June 30th each year. We have attached the 2019-20 preliminary budget in summary for the Board's approval at the June 24, 2019 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, 2019, 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 are using our best estimate of the number of 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 adopted in January 2019:

- \$126 increase to the General Education Aid formula (\$6,438 in total) which represents a 2% increase over the prior year
- Literacy Aid revenue
- 2.5% increase in special education revenue
- PreK-12 enrollment projection of 5,673 based on November 2018 projection
- Kindergarten projection assumes 99.5% of the students will attend the full day program
- \$189.13 board approved operating levy referendums.
- Integration and Achievement Revenue
- OPEB contributions continue in 2019-20
- Includes Alternative Teacher Development program (QComp/PPD)
- Full implementation of the Long-Term Facilities Maintenance Program

The expenditure assumptions include the following:

- Resets the Superintendent Contingency staffing back to 2.95 FTE to address staffing issues
- Continuation of 6.0 FTE for Class Size Reduction-includes Marketing budget and social workers
- Continuation of 6.0 FTE addition for Location Equity Revenue funding
- Salary and benefit changes based on settlements in place and market conditions for non-settled contracts
- Non-Salary, Non-Benefits Costs are estimated to increase at 0-5%
- Continued cost containment initiatives such as joint purchasing agreements, energy use reduction, paper reduction, insurance contracts, and other operational efficiencies
- QComp (PPD) continues for 2019-20 assuming matching revenues and expenditures
- \$400,000 of fund balance assigned for technology to be spent in 2019-20
- Program modification totals to be determined at a later date
- Full implementation of the Long-Term Facilities Maintenance Program

In addition, the assumptions include the proposed budget modifications presented to the board on May 28, 2019 totaling \$1,375,000:

- Teaching and Learning curriculum purchase reductions - \$150,000
- \$50 Transportation Waiver Credit program eliminated - \$ 24,000
- Hiring freeze- 5.0 FTE teachers not replaced throughout the district - \$ 325,000
- Postage- fewer mailings going out districtwide - \$ 6,000
- English Learner Teaching Position added- 1 FTE teaching position - \$65,000
- Tuition costs paid to other districts for student placements reduced - \$20,000
- Legal fees budget reduced - \$10,000
- Superintendent contingency budget reduced - \$50,000
- Supply budget reductions across all departments except Special Education - \$100,000
- Activity and gate fee increases - \$25,000

- Energy Management/Operations savings through temperature control changes and other cost containment efforts - \$55,000
- BHS clerical position reduction - \$25,000
- Reduce 10.0 FTE teaching positions to move back to Fiscal Year 2014-15 district determined class size ratios - \$650,000

In addition to the 2% increase in the general education aid formula listed above, the 2019 legislation adopted a change in the special education funding formula. Indications are that we will see an additional \$160,000 in special education revenue for 2019-20 and that total is included in the proposed budget.

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 \$68,524,157 and total expenditures of \$71,522,141. The district has been intentionally spending down the fund balance the last few years to maintain recent additions in staff that added programming lost over the last few years. At the board retreat in February 2019, we moved to change our fund balance policy limit down slightly. We also made budget modifications to stay within that policy for the 2019-20 fiscal year.

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 \$3,044,363 and total expenditures of \$3,092,680 resulting in a projected fund balance at the end of the year of \$366,705. School districts that have a positive balance for the 2019-20 school year are now exempt from the School Lunch Equity calculation. In order to maintain a breakeven budget, we may need to consider an increase in lunch prices for 2019-20. We have included a comparison of neighboring school lunch prices to review as a part of the decision making process.

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 Community Service fund budget shows total revenues of \$3,649,299 and total expenditures of \$3,593,153 resulting in a projected combined fund balance for all Community Service funds of a negative \$129,070.

The **Building Construction** fund records revenues and expenditures for the November 2014 bond issue approved projects. We are anticipating that we will complete all of our remaining projects during the 2019-20 fiscal year. This budget represents the estimated cost of the remaining projects through 6/30/20. We are projecting interest earnings and advertising revenue of \$30,525 and expenditures of \$682,155.

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. The Debt Service fund budget shows total revenues of \$5,572,141 and total expenditures of \$5,570,498.

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 \$2,045,515 and total expenditures of \$1,986,235.

The **OPEB Trust** fund (45) is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. We are projecting an increase of \$650,000 in the market value of our portfolio. We started using some of the trust funds beginning in the 2012-13 fiscal year. We will do so again in 2019-20. We record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$908,642 and expenditures of \$986,789 for a net decrease in the Trust of \$78,147.

The **HRA Trust** (18) fund is used for reporting contributions to an employee's HRA account upon hire and an annual contribution to the employee's HRA account for each year of service. These funds are held in an irrevocable trust with Mid-America through National Insurance Services. The employees have to meet certain vesting requirements before they can access these funds. The auditors require us to show the cumulative balance of the contributions plus any accrued interest in these trust accounts for those individuals eligible for the program. The actual payments to the trust are already included in the general fund expenditures shown previously in this report. The balance in the accounts is projected to be \$2,420,589 on June 30, 2020.

Summary

The increase in funding from the State of MN over the past few years and the board approved levy authority has allowed us to add back or maintain some programming through the 2018-19 fiscal year. However, intentional spend down of the fund balance over the last few years and a failed operating referendum ballot question in the fall of 2018 now require the need to make budget modifications. As a normal part of our budget development, we always look ahead at the next few years. The 2019 legislative session was a funding year for schools and did provide some additional resources for 2019-20 and 2020-21. However, it is 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. In addition to use of fund balance, 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, student enrollment, and board/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 2019-20 is relatively flat which is leading us to be very wary of counting on increased enrollment to help balance the budget. We will need to monitor our fund balance to make sure that we maintain a stable financial position.

On the expenditure side of the ledger, we have been fortunate to be able to add back some programming and maintain that level of programming for the last four fiscal years. Unfortunately, we are no longer able to continue that effort. 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:

- 2019-20 Original Budget 6.10.19
- 2019-20 Gen Fund Projected Fund Balances 6.10.19
- Board Budget Assumptions Memo 1.28.19
- 2019-20 Final Budget Modifications 6.10.19
- Meal Price Comparisons