

**School Board Meeting/Workshop Date:**

**January 11, 2010**

**Subject:**

**Financial Projections**

**Presenters:**

**Tina Burkholder, Controller  
Chuck Klaassen, Director  
Finance and Operations**

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**SUGGESTED SCHOOL BOARD ACTION:**

Review of Financial Projections for 2010-11 through 2014-15

**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 third year 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 Tina used for our enrollment projections for the next few years. That's the same enrollment projections 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 2008-09 school year predicted an undesignated, unreserved fund balance of \$4,193,802 or 8.53%. After closing out the year, the actual result was an undesignated, unreserved fund balance of \$4,278,722 or 8.58% plus some additional designations such as the capital transfer and special ed third party billing.

One scenario was presented last year. The assumptions for General Education Aid were an increase of 0% for two years, then 1% the next two years, and 2% for the last year. After the legislative session last spring, the General Education Aid formula was frozen for school districts. The original enrollment projection presented on November 2008 was also part of the assumptions. Later on, the enrollment projection was trimmed down to slow down the growth.

The scenario carried us through 2010-11 and ending near the 6% fund balance range.

**A Look Ahead**

What has changed? Things have gotten worse in the big picture of Minnesota state finances. Our current year statewide education funding formula includes a \$500,000,000 hole that was backfilled by the Governor with Federal Stimulus dollars and significant shifts in when schools receive both aid and levy payments. We don't see a way out of this statewide mess unless the Legislature can

override the Governor on some kind of statewide revenue (tax) increase. We anticipate receiving no increases in the basic formula for the next two years, and minimal after that, until the state economy improves significantly. Most expert opinions are suggesting that this recovery will happen much slower than any of us would like.

On the local district level, there is some good news to go with the bad. Our budget management efforts over the past two years will help us get through the next few years, assuming the State does not hit us hard with funding reductions. Our fund balance and keeping our belts tight should help us manage at least one more year without another major budget reduction. The two recent reductions, salary and wage freezes, and the OPEB bonding all significantly impacted in a positive way our short and long term financial situation here.

We have put together our best guess scenario for looking ahead with financial projections over the next 5 years. You can see that the last 2-3 years of this projection do see very significant dives 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 two pages of the attachment give you the basic assumptions that drive the numbers in the model. It is presented a little differently than last year but hopefully less confusing. The first set of information is the enrollment assumptions. Enrollment was revised down to reflect the drop that normally occurs at the high school during the year and early childhood special education (ECSE) adjusted daily membership.

Next are the staffing assumptions. Staffing ratios were determined last year and will remain the same going forward. They will adjust accordingly as enrollment changes each year. The superintendent still has 2.3 FTE in contingency positions, and special education has 2 FTE positions available too.

Three scenarios were generated with changes only to the revenue assumptions. One *optimistic* view with General Education formula changes of 0%, 0%, 1%, 2%, and 2%. The other two scenarios has decreases to the General Education formula then gradually increasing back to the 2009-2010 level.

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 will not be used until 2011-12, but the amount coming in from the trust is also designated until the school board decides how those funds should be spent. The amount ranges from \$665,431 to \$743,826. The capital designation was still set aside for 2009-10 and 2010-11.

The third attachment is a graph showing the level of SOD reserve for our district, the 6% fund balance level, and the fund balance levels based on our 3 different scenarios.

### **ATTACHMENTS: Financial Projection Assumptions, Chart**