

**School Board Meeting/Workshop Date:**

**January 12, 2009**

**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 2009-10 through 2013-14

**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.

Last year we began using a new financial planning model in the district, one 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 2007-08 school year predicted a \$592,842 deficit for that year. After closing out the year, the actual result was a surplus of \$264,821 (including Capital Outlay Fund 05 and Student Activities 09). That change was due to primarily to more Special Education revenue than projected and stronger ADM (student Average Daily Membership) numbers than projected. It also is the result of some early budget reduction implementation, such as holding back some expenditures and not filling some open positions.

Two scenarios were presented last year – one with a successful operating referendum question of \$495 per pupil and the other with 2 rounds of budget reductions. The assumption for General Education Aid was to increase 1% for two years, then 2% the last two years. The original enrollment projection presented on November 2007 was also part of the assumptions. Later on, the enrollment projection was trimmed down to slow down the growth, similar to the November 2008 enrollment projection.

Both scenarios carried us through 2011-12 and ending near the 6% fund balance range.

## **A Look Ahead**

What has changed? We no longer think the State will give us 1% and 2%. We assumed a couple years of 0% increase on General Ed Aid then maybe a couple years of 1% increase and an increase of 2% on the final year. With a couple years of no increase on the formula, we have lowered the salary percent increases indicating lower contract settlements. Some of the other expenses like supplies and travel also have lowered percent increases.

We have put together our best guess scenario for looking ahead with financial projections over the next 5 years. The scenario carries out the full budget reduction plan as approved by the Board of Education but does not assume any new referendum revenue. It does assume renewal of the two existing operating referendums.

With the new assumptions, this carries us through 2010-11 with an undesignated-unreserved fund balance at 6.61% before dropping to 1.52% after 2011-12.

A couple of potentially significant influences can be seen as we look now to the future and our financial projections. Obviously the State funding situation is critical. While we're projecting no increase for the next two years, we could actually be faced with some reductions due to proration or changes in formulas. We also expect the legislature to take a serious look at making some changes in some of their restrictions and designations for funding, thus allowing local districts more flexibility in positioning the dollars in the budget. Other factors that could come into play that might alter our projection include the possibility of bonding for OPEB (post employment benefit costs), Q-Comp participation and funding, capital funding bonds and/or formulas, and other miscellaneous changes that could take place over the next six months.

## **Attachments**

The first page of the attachment gives you the basic assumptions that drive the numbers in the model. The first set of bullets includes a few general assumptions that apply to the scenario and through the life of the projection. Then there are descriptions for the assumptions unique to the current year and each year in the 5-year projection.

The second page 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 projection (labeled 08-09 & 09-10 Reductions).

The third page is a summary worksheet showing the data in general categories that make up the model. This data is pulled from more detailed worksheets for each of the categories shown. Categories include the basic funding formula input, enrollment, revenues, expenditures, staffing and then reserve/fund balance. The line titled UNRESERVED-UNAPPROPRIATED near the bottom of the page is the bottom line number represented the projected fund balance.

## **ATTACHMENTS: Financial Projection Assumptions, Summary Data and Chart**