

School Board Meeting/Workshop Date:

January 10, 2011

Subject:

Financial Projections

Presenters:

**Gary Kawlewski, Director
Finance and Operations
Tina Burkholder, Controller**

SUGGESTED SCHOOL BOARD ACTION:

Review of Financial Projections for 2011-12 through 2015-16

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 fourth 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 Tina used for our enrollment projections for the next few years. 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 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 2009-10 school year predicted an undesignated, unreserved fund balance of \$5,291,353 or 8.93%. After closing out the year, the actual result was an undesignated, unreserved fund balance of \$6,151,513 or 10.28% plus some additional designations such as the capital transfer, stimulus, and an addition to our designation for severance payments.

A Look Ahead

The Minnesota legislature convened this past week and is faced with a \$6.2 billion deficit for the next biennium. The K-12 budget represents about 50% of the \$6.2 billion deficit for the next biennium, and it's likely that we will be impacted in some fashion by the final results of this legislative session. We anticipate receiving no increases in the basic formula for the next two years and are hopeful that we don't see a decrease in the General Education funding formula. We are starting to see some signs of economic recovery but they have not translated into significant changes to the state's projected deficit issue for this legislative session. 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. We did receive an allocation of a little more than \$1 million from the federal Educations Jobs bill that will help us avoid significant change for the 2011-12 budget. Additionally, our budget management efforts over the past several years

will position us to 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 our short and long term financial situation here in a positive way.

We have put together several scenarios 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 page of the attachments gives you the basic assumptions that drive the numbers in the model. The first set of information is the enrollment assumptions. Our enrollment for the financial forecast is a little more conservative than the enrollment that Tina presented in November. This is done to reflect the drop that normally occurs at the high school during the year and allows for the fact that early childhood special education (ECSE) average daily membership numbers are always less than the actual number of students in the program.

The next section of the first attachment shows our staffing assumptions. Staffing ratios were determined in 2009-10 and will remain the same going forward. They will adjust accordingly as enrollment changes each year. The superintendent still has 2.3 FTE staffing contingency positions and special education has 2 FTE positions available as well. We also have a 1.0 FTE placeholder for a gifted instructor for all years of the model. The last section of this attachment shows a summary of the revenue, expenditure, and fund balance assumptions used in the model. It also shows other factors that could affect the forecast going forward.

The second attachment shows the financial detail of the four scenarios we are reviewing. The first scenario is an *optimistic* view with General Education formula changes of 0%, 0%, 1%, 1%, and 0%. The second scenario leaves the General Education formula flat for all years of the model. The third scenario shows a 1% **decrease** in the formula allowance for year 1 and then leaves it at that level for all remaining years of the projection. The last scenario shows the General Education formula flat for all years but shows the impact of placing the referendum formula at the state cap. This is the only scenario of the four that shows us basically staying at our fund balance policy levels for the duration of the next five years.

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 is shown to be used starting in 2011-12, but the amount coming in from the trust is also undesignated until the school board decides how those funds should be spent. The amount ranges from \$682,551 to \$752,316. The capital designation is still expected to be used in 2011-12.

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 4 different scenarios. We will also present the information in a PowerPoint presentation at the January 10th meeting.

ATTACHMENTS: Financial Projection Assumptions, Scenarios, Chart