School Board Meeting/Workshop Date: **January 14, 2019**

Subject: Financial Projections

Presenters: **Gary Kawlewski, Director**
                                                                          Finance and Operations

---

SUGGESTED SCHOOL BOARD ACTION:
Review of Financial Projections for 2019-20 through 2021-22

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 eleventh year of using a financial planning model for the district. This model is used by many other school districts in Minnesota. Jim Sheehan, former business manager for Rochester Schools, developed the planning model. Ann Thomas and Todd Netzke at SchoolFinances.Com maintain the model.

Our Financial Planning Model (FPM) uses the enrollment model ENPRO that we used for our enrollment projections this past fall and is the same enrollment projection model we have been using for the past few years. The FPM also incorporates staff and salary projections from Evan Ronken in Human Services 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 2017-18 school year predicted an undesignated, unreserved fund balance of $8,068,387 or 12.16%. After closing out the year, the actual result was an undesignated, unreserved fund balance of $8,934,570 or 13.60% 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 due to lower than anticipated spending in salaries and benefits.

A Look Ahead
The Minnesota Legislature will convene in January this year and is in the funding year for the biennium. The governor has stated publicly his intent to better fund education in his first term. The 2018 Legislature made no funding changes with its inability to make a deal. The 2017 legislature added 2% for each year of the biennium for general education revenue that expires at the end of the 2018-19 fiscal year.

The state forecast projects a significant surplus for the biennium. The passage of the bond issue in November of 2014 has created some flexibility in the operating capital fund through the 2019-20 year. We also created an assigned fund balance for technology purchases that will build up to a total just under $2,000,000 at the end of the 2018-19 school year. These expenditures would otherwise come out of the general fund budget but were able to be shifted to the construction fund. We will spend down that built up assigned fund balance for technology starting in the 2019-20 fiscal year. We are hoping the State's economy continues to trend upward and the Legislature can provide some additional funding. However, we are at the point where we are going to need to look at our fund balance and make modifications to manage our fund balance.

Our original budget for 2018-19, adopted on June 25, 2018, showed a beginning unassigned/non-spendable fund balance at $8,068,387. The adopted budget included a drop in fund balance of $2,881,032 leaving an ending balance of $5,187,355. The final audit results for 2017-18 changed the 2018-19 starting fund balance to $8,934,570 leaving a 2018-19 ending balance at $6,053,538. The first 2018-19 first revised budget, done in preparation for the forecast, shows that we will end at $6,183,852 or a drop of $2,750,718. This is $130,314 better than the original projection.   The majority of the changes come from a review of staffing, benefits, operations and maintenance costs, tuition payments and the recently approved Montrose School of Innovation STEAM grant totaling $580,822. The balance of the changes comes from changes to designated or assigned fund balances as a part of the budget revision. These changes would drop our unassigned fund balance from 13.60% down to 8.84%. Our original budget showed our fund balance at 7.49%.

We have included the base plan and three additional scenarios to review as we look at our financial projections over the next three years. Factors that could affect these numbers lie in and among the following factors:
1. Final enrollment totals
2. Final contract settlements
3. Final budget to actual expenditures
4. Legislative funding changes

We will look to adopt our final budget assumptions at the board meeting on January 28, 2019.

ATTACHMENTS:
- **ISD 877 BHM Forecast 2019**
- **Base Plan Detail**
- **Forecast Scenario #1 Detail**
- **Forecast Scenario #2 Detail**
- **Forecast Scenario #3 Detail**