School Board Meeting/Workshop Date: **January 9, 2012**

Subject: **Financial Projections**

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

SUGGESTED SCHOOL BOARD ACTION:

Review of Financial Projections for 2012-13 through 2016-17

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 fifth 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 we 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 2010-11 school year predicted an undesignated, unreserved fund balance of $5,597,487 or 10.58%. After closing out the year, the actual result was an undesignated, unreserved fund balance of $6,675,737 or 12.96% 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 will convene this month and is in an off cycle for the education budget determination. This session is likely to be filled with discussions about the Vikings stadium and other related bonding packages. The legislature did adopt a budget that adds $50 to the General Education funding formula for both 2011-12 and 2012-13. It also added a new Literacy Aid component that will add approximately $330,000 for 2012-13 and beyond. The legislature also scheduled Integration revenue to sunset after the 2012-13 school year while still leaving integration transportation revenue in place for the current year and beyond. We anticipate that there will be a number of discussions that will try to tweak some of the funding based on a slightly more positive November forecast. However, the state is still faced with a budget deficit at the end of the current biennium. Our budget management efforts over the past several years will position us to get through the next few years assuming the State economy continues to trend upward and the

Legislature does not hit us 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 five years. You can see that the last two to three years of this projection do see significant drops 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 was 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 has 3.3 FTE staffing contingency positions and special education has 2 FTE positions available as well. 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 five scenarios we are reviewing. The first scenario is the current view with General Education formula changes of 1%, 0%, 0%, 0%, and 0%. The second scenario delays the OPEB funding for one more year. The third scenario shows a 1% **decrease** in the formula allowance for 2013-14 and then leaves it at that level for all remaining years of the projection. The fourth scenario shows a 1% **increase** in the formula allowance for 2013-14 and then leaves it at that level for all remaining years of the projection. The last scenario shows the Integration revenue dropping off after 2012-13 and beyond yet leaves the expenditures for the program in place.

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 2012-13, 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 $743,708 to $803,558. 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 five different scenarios. We will also present the information in a PowerPoint presentation at the January 9th meeting.

ATTACHMENTS: Financial Projection Assumptions and Scenarios, Chart