

School Board Workshop:

June 9, 2014

Subject:

2014-15 Preliminary Budget Review

Presenter:

Gary Kawlewski

SUGGESTED SCHOOL BOARD ACTION:

No action required

DESCRIPTION:

Minnesota state statutes require Boards of Education to adopt school district budgets by June 30 each year. The 2014-15 preliminary budget is enclosed here in summary for the Board's approval at the June 23, 2014 meeting.

This budget represents our financial operating plan for the next year. It is also a key piece of our general financial planning for the district and certainly a key piece of our longer range financial plan. It is a financial guide for the next year. It reflects our district priorities and expectations. It is a guide for future activities, both financial and program. It is a management tool for district fiscal control, and allocates the districts resources and provides the guidelines for spending those resources. It also provides the legal authority as an authorizing document for the district staff to gather those resources together and spend them in a wise manner.

This budget is not just numbers, rows and columns. It is people and programs. It is maximizing opportunities for student learning. In this budget, we have tried to reflect the mission of the District and the Board's plans and priorities for the next year and beyond. It reflects input from Board members, district administration, building leadership, and other district staff.

The budget planning process is a long one – one that actually spans multiple years. One of the most important inputs in planning the budget is enrollment projections, since our basic funding is based on the number of students in our schools. After we settle into the school year next fall and get our first official enrollment numbers on October 1, 2014, we will review the budget and put together a revised budget for the Board to review at the same time as the financial forecast. We're taking our best guess about how many students we will see walk through the school building doors next September. We will monitor the budget closely throughout the year and provide updates to the Board as needed. In the spring, we will revise the budget once again as we adjust to the year in progress.

This budget reflects the following revenue assumptions: \$103 increase to the General Education Aid formula which represents a 1.9% increase, Integration Revenue at 83%, Literacy Aid revenue, a 1% increase in special ed revenue, ECSE-12 enrollment projection of 5,778, and \$189.55 board approved operating levy referendums. Severance for teachers and administrators is reflected in fund 45 as well as the third year of payments from the OPEB Trust to cover those costs. The expenditure assumptions include the following: Superintendent and Special Education staffing contingencies of 10.3 and 2.5 FTE positions respectively, \$405,000 for capital, curriculum, and technology projects, \$330,000 for the class size reduction initiative,

ADEDK rolled in from the community service fund, an additional 3.3 FTE positions to move to full implementation of all-day kindergarten, \$50,000 for strategic planning, salaries and benefits based on contracts and expected market conditions, other expenditures (supplies & utilities) with 0-5% increases, continued cost containment initiatives, and the MDE approved Integration program at 83% of the 2012-13 budget allocation.

Summary of Funds

The **General Fund** (01) is used to account for all revenues and expenditures of the school district not accounted for elsewhere. The General Fund is used to account for: K-12 educational activities; district instructional and student support programs; expenditures for the superintendent, district administration, operations and maintenance; pupil expenditures; and capital expenditures. The General Fund budget shows total revenues of \$57,705,267 and total expenditures of \$59,328,097. Our forward-looking approach to budgeting has enabled the district to maintain its long-term financial stability, starting with the hiring freeze in 2007-08, two rounds of budget reductions, and a soft wage freeze in 2009-10. The district is intentionally spending down the fund balance this year in an attempt to restore some of the programming lost over the last few years. The General fund totals now include the capital outlay fund 05.

The **Food Service** fund (02) is used to record financial activities of a school district's food service program. Food Service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school community service activities. All expenditures relating to meal preparation must be recorded in the Food Service fund. Eligible expenditures include application processing, meal accountability, food preparation, meal service, and kitchen custodial service. The Food Service fund budget shows total revenues of \$3,214,162 and total expenditures of \$3,127,390 resulting in a projected fund balance at the end of the year of \$86,772. The revenues include a \$.10 per meal price increase.

The **Community Service** fund (04) is used to record all financial activities of the Community Education program. The Community Service fund is comprised of four components each with its own fund balance: community education, early childhood family education, school readiness, and adult basic education. The focus of community education is educational and personal growth activities and programs for all age levels that are not directly part of the K-12 education program. The budget no longer includes the All Day Kindergarten Enrichment program as that program moves to the general fund. The Community Service fund budget shows total revenues of \$3,240,853 and total expenditures of \$3,316,047 resulting in a projected combined fund balance for all Community Service funds of \$44,053.

The **Debt Service** fund (07) is used to record revenues and expenditures for a school district's outstanding bond indebtedness. When a bond is sold, the school board must levy a direct general tax upon the property of the district for the payment of principal and interest on such bonds due. The revenue from such a tax and related state aid must be separately accounted for in a Debt Service fund. This fund is also used to record any refunding bonds that are sold during the year. The Debt Service fund budget shows total revenues of \$6,355,556 and total expenditures of \$6,316,675.

The **Building Construction** fund records revenues and expenditures for the Alternative Facilities project at Parkside Elementary. We started to use the fund in 2012-13 and will complete the project in 2013-14. The fund will close as of June 30, 2014.

The **OPEB Debt Service** fund (47) is used to record levy proceeds and the repayment of the outstanding OPEB bonds. On September 2009, a \$10.845 million OPEB bond was approved to pay for the district's other post-employment benefits and severance based on years of service. The OPEB Debt Service fund budget shows total revenues of \$499,659 and total expenditures of \$494,438.

The **OPEB Trust** fund (45) is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. We anticipate another promising year in the market and hope to see an increase of \$500,000 in the market value of our portfolio. We started using some of the trust funds in the 2012-13 fiscal year and will do so again in 2014-15. We record severance and retiree payments for teachers and administrators in the Trust. We are projecting revenues of \$641,976 and expenditures of \$858,137 for a net decrease in the Trust of \$216,161.

The **HRA Trust** (18) fund is used for reporting contributions to an employee's HRA account upon hire and an annual contribution to the employee's HRA account for each year of service. These funds are held in an irrevocable trust with Mid-America through National Insurance Services. The employees have to meet certain vesting requirements before they can access these funds. The auditors are required to show the cumulative balance of the contributions plus any accrued interest in these trust accounts for those individuals eligible for the program. The actual payments to the trust are already included in the general fund expenditures shown previously in this report. The balance in the accounts is projected to be \$604,021 on June 30, 2015.

Summary

The increase in funding from the State of MN for the next year and board approved levy authority will allow us to add back some programming. Stable utility costs, other cost containment measures, and maintaining basically the same level of programming have kept the district in decent shape compared to many other Minnesota school districts. Part of the budget development requires us to look ahead at the next few years. We do see additional revenue for the 2014-15 school year which should help us to maintain a stable fund balance position. We are intentionally spending down the fund balance in an attempt to add back programming that has been lost over time. However, it's clear that additional action will be necessary in the next several years to allow us to remain fiscally healthy and keep our fund balance where it needs to be. There are only two general variables in bringing a budget into balance – increasing revenues or reducing expenditures.

Our revenues are largely dependent on three variables – funding from the state legislature, student enrollment, and board/voter-approved levy referendums. Student enrollment for budget purposes is based on projections and therefore must be conservatively figured. Our current projected Kindergarten enrollment for 2014-15 is still down but similar to this year, leading us to be very wary of counting on increased enrollment to help balance the budget. The board approved levy authority will give us the ability to add programming for next year. We will need to monitor our fund balance to make sure that we maintain a stable financial position.

On the expenditure side of the ledger, we have experienced significant reductions for 2008-09 and 2009-10. We were fortunate to be able to add back some programming for 2013-14 and are intentionally doing so for 2014-15 as well. The Board has also been able to set aside funds to help with technology, facilities repairs, and curriculum.

Ultimately, the best long range solution lies in a stable and consistent revenue stream for the district, something that depends on local voter support and reasonable increases in state funding.

ATTACHMENTS:

- 2014-15 Budget Document
- Budget to Forecast Reconciliation 6.9.14
- 2014-15 Gen Fund Projected Fund Balances 6.9.14