<u>Preliminary Budget Message for Fiscal Year 2020</u>

May 13, 2019

Board of Education:

Introduction

This Preliminary Budget Message provides an overview of the anticipated revenues and expenditures for Fiscal Year 2020 (2019-2020 school year). The actual budget document, which will be provided in June, will include more detail and specificity. In respect to this document, please take note of the following global information.

Revenues

<u>Local Revenues</u>

As you know the major factors affecting our local revenues are the Assessed Valuation (AV) and tax levy. Our estimated assessed valuation is $725,822.984. Which is an increase of 9.4%. Since 2019 is a reassessment year, we will be provided updated information in July and a final assessed valuation in September. This amount will likely increase.

When considering local revenues one must consider the collection rate at which taxpayers pay their taxes. We are using a two year average of 93% for the collection rate for current taxes and 7% for delinquent taxes.

Based on the voter approved operating tax levy of $5.1600 and the commitment to not increase the overall tax levy of $6.3200 the debt service levy will be $1.1600. These tax rates calculations will not change as a result of any changes made by the board of equalization.

Using this reassessment information, considering recent collection rates, and adjusting our levy accordingly, we anticipate an increase of $4M in local tax revenue. Of this total, the operating revenue will increase $4.2M and the debt service revenue will decrease $200K.

Assuming the final assessed valuation will increase slightly and knowing the tax levy will not change, it is likely that overall revenue will be modestly higher than what has been budgeted.

Lastly, we are expecting a one-time rebate from Blue Cross and Blue Shield of $1.2M.

<u>State Revenues</u>

This portion of the revenue budget factors in the funding formula. The formula calculation uses Weighted Average Daily Attendance (WADA) which is determined by student-need as well as student attendance to drive revenues. Over the past 36 months the district's enrollment has declined. The number of student qualifying for Free or Reduced Lunch has declined slightly with the number of SPED and ELL students increasing slightly. As a result, we are anticipating a decrease in our WADA of roughly 210 Full Time Equivalency (FTE). We will continue to monitor enrollment, attendance, and student need as we begin the school year.

To determine the amount of state funding the district will receive, the WADA is multiplied by the State Adequacy Target (SAT). As of the writing of this message the SAT is $6308 for FY19. We are anticipating a SAT of $6375 for FY20. This is based on the most recent information we have been provided by DESE and our MASA lobbyists. We will continue to monitor the situation closely and have budgetary responses as more information is available.

The Dollar Value Modifier (DVM) was decreased from 1.084 to 1.081. This change will result in less state funding.

Based on these assumptions, we estimate a decrease of $940K in formula revenue.

In addition to the funding formula we take into account Prop C monies. Prop C monies come from sales tax and is paid on the prior year's WADA. We estimate a payment of $1025 per FY19 WADA. This assumption will increase Prop C revenue by $175K.

<u>Federal Revenues</u>

We will receive our final notification in mid May. Our initial allocation indicates a decrease in Title funds of roughly $40K. The budget does reflect a $2.3M increase in food service revenues as a result of the After School Meal program.

<u>Capital Revenues</u>

No part of the levy will be allocated to the capital fund (Fund 4). We will experience a small amount of unrestricted revenue from Enhancement Grants as well as Utility and Railroad revenues.

Based on voter approval, the district will sell $40M worth of bonds this May. This revenue is restricted to be spent on the voter approved projects and capital expenditures.

<u>Overall Revenue Change</u>

Based on the available information, we anticipate an increase of $6M in operating revenues. Debt service revenues will decrease an estimated $200K. Since the bonds will be sold in FY19, that revenue will be realized in FY19. The budgeted capital revenue for FY20 is a little over $1M which is $300K less than FY19, not considering the revenue from the sale of the bonds.

Expenditures

Salary and Benefits

The budget shows an increase of 1.2% for salaries and benefits based on the Rayteam recommendation. This increase includes:

- A step for certified and classified staff (1.5%-3% increase),
- Fully paid health insurance premium option for individual employees ($7837.68, 7% reduction).

Supplies and Other Purchased Services

Buildings and Departments have been allocated their budget requests for FY20. In some cases there has been a slight increase. Other purchased services is budgeted to increase 7.1% and supplies are budgeted to increase 13.6%.

Debt Service

This budget anticipates an $9.5M payment in debt service.

Capital Funds

We have budgeted $1.9M for anticipated unrestricted capital needs. We have also budgeted $12.9M in restricted bond projects. We have attempted to adequately and appropriately budget for these capital needs but know we have likely over budgeted to ensure the funds are available. In the past we have budgeted for lease purchase payments. With the sale of the bonds, the lease purchases will be paid off in FY19.

Balances

As of the writing of this message, we anticipate beginning the FY20 budget year with 18.0% ($19.9M) in unrestricted operating balances. This reflects a reduction of $3.9M from FY18. This reduction in our balances is in line with our prediction in the FY19 Budget Message. In that message we predicted a deficit of $4M.

Based on budgeted revenues and expenditures we anticipate ending the FY20 year with 16.3% ($18.6M) in unrestricted operating balances. This reflects a reduction of $1.3M in balances. We have traditionally overestimated expenditures and underestimated revenues. We believe that to be the case again this year. It is likely that a portion of our operating expenditures will go unspent and revenues will come in slightly over our budgeted amounts. If we expend funds as we have in the past and revenues come in slightly higher than we expect, our balances for FY20 will likely end more accurately around 19.1% ($21.5M). As we monitor revenues and expenditures throughout the year, we will amend the budget. This will occur mostly likely in November 2019, March 2020, and June 2020.

Above and beyond these unrestricted balances are $600,000 in restricted operating balances. These operating funds are set aside for Health Insurance Claims paid if and when we would ever discontinue business with Blue Cross and Blue Shield.

In appears as if our balances will fall below 20% at the end of FY20. This will allow us to transfer funds from Fund 4 to Fund 1 in FY21. Based on long range revenue and expenditure projections, this may be necessary.

Conclusion

We believe this preliminary budget will allow us to maintain high quality educational programs for our students; increase instructional leadership; retain the best and brightest staff; and meet the 2018-2019 Board of Education goals. Assuming our budget projections are accurate, it will become necessary to consider reducing expenditures so our balances will remain between the 15% and 20% outlined in board policy. We will closely monitor this budget to ensure we continue our tradition of a strong fiscal condition.

Respectfully submitted,

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Ms. Jacqueline Vernon, Supervisor of Finance