

ANCHORAGE SCHOOL DISTRICT

ANCHORAGE, ALASKA

ASD MEMORANDUM #134 (1999-2000)

December 13, 1999

TO: SCHOOL BOARD
FROM: OFFICE OF THE SUPERINTENDENT
SUBJECT: FY 2000-2001 FINANCIAL PLANNING

RECOMMENDATION:

It is the Administration's recommendation that the School Board approve and authorize the Superintendent to prepare the Anchorage Schools District's FY 2000-01 Preliminary Budget in accordance with the financial projections set forth in this memorandum. Specially, the budget for FY 2000-01 is to be established for planning purposes with projected revenue not-to-exceed \$414,807,131. This includes individual fund budgets currently projected as follows:

	<u>FY 2000-01 Budget</u>
General Fund	\$340,504,331
Food Service Fund	10,650,000
Debt Service Fund	39,652,800
Local/State/Federal Projects Fund	<u>24,000,000</u>
	<u>\$414,807,131</u>

It is further recommended that the School Board authorize the Superintendent to adjust the budget expenditure ceiling indicated above in accordance with any negotiated contract adjustments and other associated costs increases, School Board requests and Administration recommendations as implemented by the Superintendent. In addition, flexibility must be allowed for adjustments based on the most recent demographic and/or economic information, as well as status of the Alaska Mandarin Immersion Charter School application scheduled for School Board approval in January 2000 or staffing based on review of student enrollment projections.

PERTINENT FACTS :

This memorandum is presented to assist the School Board in their review of the District's educational obligations that need to be addressed during the FY 2000-01 financial planning process. This memorandum presents financial planning considerations that will be used in developing the FY 2000-01 Financial Plan, allowing the School Board the opportunity to review significant financial issues which will be addressed during the budget hearings in January.

THE BUDGETING PROCESS

The budget provides a blueprint for the Anchorage School District's educational goals. When developing the budget, the Anchorage School District has an obligation to its many stakeholders—the students, parents, employees, and community members—to consider each group's priorities and balance them with the District's stated mission of educating students for success in life. State mandated requirements must be considered as well.

The initial FY 2000-01 budget projections reflect the District's on-going efforts to achieve this balance, maximize performance and contain costs.

These initial projections for FY 2000-01 are prepared using the most current information available. Existing funds and cost savings are directed to District programs to ensure that progress is made in achieving School Board Goals. The budget development process is taking place keeping in mind the District's responsibility in designating financial and human resources within projected revenues.

The budget continues to realign the District's spending priorities in new directions, as budgeting is a progressive process. Departments review their programs and responsibilities; assess what is being done during the current fiscal year; and begin making plans for next year and future years. Input from community members and staff members may result in change or elimination of existing programs or institution of new ones. The focus is on evaluating the need for additional staff, supplies, and other operating expenses. It may be determined that efficiencies can be achieved through better resource management.

Federal, State or local mandates may necessitate the District to incorporate additional responsibilities and/or initiate new programs within the District. Various demographic and economic factors must be evaluated for their impact on the budget.

The balanced budget concept, Alaska Public School Funding, and the tax cap limitation necessitate early predictions of both revenues and expenditures. Initially, schools and departments prepare budget requests based on their program requirements. Then, the total of all units' budgets plus any new facilities or change in program requirements are compared to anticipated revenues.

Student enrollments, revenues, and expenditures are projected on a preliminary basis. The following sections on Student Projections, General Fund Revenues and Expenditures, and Other Funds summarize the principal financial planning factors involved in preparing initial FY 2000 01 projections. Major revenue and expenditure considerations and budget development criteria are also included.

STUDENT PROJECTIONS

Student Enrollment–The most significant factor in the budget development process is the number of students served. In September the District projected enrollment of 49,050. Since that time the District’s enrollment projections for FY 2000-01 have increased by 247 students to 49,297. Enrollment projections are based on enrollment history, profile, and both demographic and economic considerations. The General Fund budget is developed using the FTE (full-time equivalent) student count, weighting both half-day kindergarten and preschool students at one-half, which is consistent with their programs.

The total projection for September 30, 2000 is 49,297 students. This reflects a decrease of 15 students from the September 30, 1999 official membership total of 49,312. While the projected decline for September 30, 2000 is minimal, it stands in marked contrast to the significant gains observed at the start of FY 1996-97 and FY 1997-98 school years, which provided for anticipated 50,201 students for FY 1999-2000. The two major assumptions influencing the projections for next year are a smaller kindergarten class entering the District and the loss of students due to more students leaving the District than entering grades 1-12.

In order to project student enrollment, District staff works closely with the Municipality of Anchorage in utilizing the Municipality's Geographic Information System. The following schedule summarizes the actual or projected student enrollment information for FY 1997-98 through FY 2000-01 on both a full count and FTE basis:

	Actuals 1997-98 9/30/97	Actuals 1998-99 9/30/98	Actuals 1999-00 9/30/99	Budget 1999-00 9/30/99	Projected 2000-01 9/30/00
Total Number	48,793	49,551	49,312	50,201	49,297
Change over previous year Actual/Projection		758	(239)	889	(904)
FTE (Full-Time Equivalent)	47,613	48,462	48,553	49,101	48,604

Variable General Fund expenditures will be periodically revised for changes in enrollment projections. The new proposed Alaska Mandarin Immersion Charter School had not been submitted for review and approval when these projections were developed. If this charter school is approved by the School Board for FY 2000-01, then the total District enrollment for September 30, 2000 would also increase by a proportionate

amount. We will review projected enrollment to determine if we need to make adjustments before the Preliminary Budget is submitted to the School Board in January 2000. If the Administration recommends additional classes of full—day kindergarten, the student enrollment and upper limit of the budget will be impacted.

GENERAL FUND

The General Fund, consisting of each school's and department's budget, accounts for the majority of the District's operations and activities. Therefore, this planning memorandum and most of the subsequent discussion and decisions on balancing the budget for next year will focus primarily on estimated revenues and expenditures of the General Fund.

Revenues

Alaska Public School Funding Program—The largest single revenue source to the District comes from the Alaska Public School Funding Program. This Program is expected to provide approximately 57 percent of the District's General Fund revenues. Based on current enrollment projections, the amount of funding for FY 2000-01 is \$194,910,119 which is \$2.468 million less than anticipated for FY 1999-2000 and \$6.931 million less than the current FY 1999-2000 budget. This is a result of lower anticipated enrollment, (FY 1999-2000—50,201 budgeted, 49,312 actual and 49,297 projected for FY 2000-01), larger deduction resulting from increased State assessed property valuation of \$1.15 billion and impact of the larger deduction of Federal Impact Aid used in the Public School Funding formula calculation.

The *Alaska Public School Funding* program is based on the average daily membership (ADM)—determined by the District's enrollment and special education intensive ADM count—processed through a school size factor formula to establish the District's "basic need." The required local share and a percentage of the Federal Impact Aid funding that the District receives for Federally-connected students is then subtracted from the "basic need" to determine revenue. The Public School Funding formula defines the required local share as being the lesser of 45 percent of the preceding years "basic need" or 4 mills times the total State assessed full and true valuation of local real estate, inventory and other taxed personal property for the second preceding year. An increase to the assessed valuation reduces the potential amount of Public School Funding revenue.

Local Property Taxes—Local property tax contribution is the District's second largest General Fund revenue source. Projected local property tax revenue for FY 2000-01 is based on requesting the full amount of taxes available under the local property tax limitation. The local property tax limitation provides for annual adjustment for both inflation and the five-year Anchorage population change.

The projected inflation rate used for planning purposes is 2 percent. This preliminary estimate is the rate being used by both the District and the Municipality of Anchorage in the tax limitation calculations. The official Consumer Price Index will not be available

until February 2000. As determined by the State Department of Community and Regional Affairs, the five-year Anchorage municipal population change used for planning purposes is .89 percent. The projected combined rate of 2.89 percent for FY 2000-01 is .08 percent more than the current rate of 2.81 percent for FY 1999-2000.

It is anticipated that this increase—along with voter—approved additional taxes allowed for operations and maintenance costs for four additions and the one new elementary school scheduled to open in FY 2000-01—and increased taxes allowed on new construction or property improvement—will increase the amount of taxes available in the General Fund by approximately \$5.92 million. However, the Anchorage Assembly must first consider and approve the District's tax request.

Federal Impact Aid—Since FY 1992-93, the District has been directly receiving all Federal funding appropriations related to students who reside on Federally-owned land—rather than having the funding allocated to the State and then reallocated to the District in the form of State Tuition and additional Alaska Public School Funding revenue.

The initial revenue projection for Federal Impact Aid has been projected at 95 percent proration of projected entitlement, an anticipated increase of \$1.0 million from the FY 1999-2000 budget amount of \$7.7 million.

The amount of Federal Impact Aid revenue each year is uncertain because it is subject to proration based on the annual funding appropriated by Congress. In addition, the percentage of the total number of federally—connected students to the total number of students the State has direct responsibility for—including military students, children educated at Mt. Edgecumbe and State correspondence (Alyeska)—and potential formula changes, could result in fluctuations in Federal Impact Aid funding to the District. This coupled with the fluctuation from year-to-year in the number of students living on military land, which can partially result from on base/post housing renovations, adds to the uncertainty of Federal Impact Aid revenue during the budget process.

This Program is subject to annual Congressional appropriation and should be monitored. **We do not expect to know the funding level for FY 2000-01 Federal Impact Aid until after October 1, 2001.**

Fund Balance—The District's undesignated fund balance for the General Fund is a potential one-time source of revenue. Deciding the appropriate level of fund balance required for a contingency reserve requires an exercise of judgment. Industry standards recommend undesignated fund balances or contingency reserves remain between 3 to 5 percent of the budget. The undesignated fund balance needs to be maintained to protect against shortfalls in revenue collection, to allow for adequate cash flow management, and to provide the financial ability to meet emergencies.

The Administration is recommending the use of Fund Balance for the FY 2000-01 Financial Plan. The undesignated fund balance as of June 30, 1999 is approximately \$17.62 million. Of this amount, it is recommended up to, but not—to—exceed, \$12.0

million be used to support District programs, equipment and employee contracts. This will leave an approximate balance of \$5.62 million, which is 1.65 percent of the FY 2000-01 General Fund budget as presented in this memorandum. Again, the final recommendation will not be made until the budget is proposed in January.

Pupil Transportation Reimbursement—Transportation reimbursement is calculated for FY 2000-01 consistent with the current year. The preliminary FY 2000-01 revenue projections are based on full funding at the same reimbursement level of State funding as in FY 1999-2000—adjusted for inflation and one additional route.

User Charges and Fees—For the FY 2000-01 budget, fees will continue to be assessed for musical instrument usage, student transcripts, ASD (Anchorage School District) documents, Senior High Student Activity fees, Middle School Student Activity fees, building rental fees and fees for Community Education.

Medicaid—Based on FY 1998-99 actual revenue received and current year projections, it is estimated that the District will received approximately \$500,000 in Medicaid funding based on information from the Alaska Department of Education and Early Development.

Expenditures

Salaries and Benefits—Employee salaries, wages, and benefits are projected to be approximately 84 percent of the operating cost of the District. The bargaining groups currently in negotiations for FY 2000-01 are the Anchorage Education Association (AEA), the Anchorage Principals' Association (APA), and Teamster-Maintenance/Warehouse. **On December 1, 1999 the Anchorage School District and the School Board opened negotiations with the AEA for a one-year contract (due to the uncertain economic forecast for Anchorage). The increase contained in the ASD's proposed contract with AEA will be funded by a combination of revenue increases to the budget, reallocation of funds, taxes and the undesignated Fund Balance.**

Negotiations for APA and Teamster-Maintenance/Warehouse have not started. Contracts for FY 2000-01 that have been settled are the Anchorage Council of Education (ACE), TOTEM (Educational Support), Custodians (Local 71), and the Teamsters-Bus Drivers and Attendants.

Compensation provisions for completed contracts and contracts under negotiations, have been included in the projections. Funding for mandatory retirement and payroll tax adjustments known at this time is also included in the expenditure projections.

Staffing—Staffing requirements have been adjusted based on the official projections set forth as of September 30, 1999. Official projections are based on actual enrollment throughout the month of September.

Certificated Teaching Positions—Budgeted teaching staff is based on the FY 1999-2000 PTR (pupil to classroom teacher staff ratios) which continues with the staffing ratio adjustments made at the first and third grades and 9th and 10th core level classes as a result of the passage of Senate Bill 36 providing additional funding resources to the District.

Kindergarten (FTE)	20.5 to 1
Grades 1	21 to 1
Grade 2-3	24 to 1
Grades 4-6	27 to 1
Grades 7-8	26.25 to 1
Grades 9-12	27.08 to 1
Special Education	Staffing is based upon demonstrated need and program (consistent with current year)

Contracted Services—Where appropriate, an inflationary adjustment to contracts will occur. A close review of actual contract expenditures will determine if inflationary increases are warranted. If other known rate increases are warranted they will be included in the budget. Utilities are budgeted based on analysis of usage and are adjusted according to projected rate increases and/or decreases, the opening of the new Southeast Area Elementary school and four additions.

Also included in the projections is approximately \$271,000 of additional cost associated with contracted transportation for the five additional days that the students will be riding buses in lieu of an in-service day as stated in the proposed District contract with AEA. This additional cost is reimbursed from the State.

The funding to replace the one—time project cost for hardware and software for the Library Automation system has been eliminated. The funds for the computer services agreement to support the Library Automation equipment for the second year of the five-year service agreement has been included.

Major Maintenance—The Administration recommends maintaining the funding level for major maintenance projects of \$2,195,000 for some of the District's more than 80 school facilities. This budget has been reduced \$909,500 for the one-time Y2K system upgrade. Periodic maintenance must take place on a regular basis to keep the buildings in good repair for optimum safety and efficiency. The community has voiced strong support for prioritizing this use of funds.

Supplies—Where appropriate, an inflationary adjustment to supply appropriations will be allowed. Some units, however, may show an increase in supplies based on departmental

need to service the total District program requirements (i.e., fuel requirement to run District vehicles).

Equipment—In the past, District-owned equipment, vehicles and buses were not replaced on a regular basis which resulted in higher maintenance cost. Included in the FY 2000-01 projections are 10 new buses with an approximate cost of \$950,000 and additional vehicles for the Maintenance Department. New buses have a higher rated capacity, are more fuel efficient, and have lower operating costs. The Administration's intent is to continue with a plan to purchase new buses on a regular basis.

The District will continue to support the custodial program funding (\$150,000) in a continued effort to expand the program to include all schools. The purchase of up-to-date custodial equipment will support the District's on-going efforts to maximize staff efforts in keeping our school safe and clean.

New School and Additions—Included in our expenditure projections are costs associated with one new elementary school and four additions to elementary schools. Budgeted expenditures for these facilities include salaries and benefits for personnel required to operate and maintain the school, as well as expenditures for necessary supplies and equipment.

Charter Schools—One application for a charter school, Alaska Mandarin Immersion, has been received by the Administration for consideration for FY 2000-01 and is based on an anticipated enrollment of 40 students. This charter school application will be brought to the School Board for approval in January 2000. If approved, we will make adjustments accordingly.

Additional Requests—At the School Board Work Session on September 30, 1999 the School Board requested the Administration to cost out and consider the following program enhancements for inclusion in the FY 2000-01 Financial Plan. Discussions have been on-going over the past few months and during the next month a recommendation will be brought forward.

- Full—Day Kindergarten expansion to 10-12 more schools
- Correspondence Program; Remediation Gifted Services
- Lower class size
- Add more to the pool for classes over 30
- Saturday School
- Summer School expansion
- Supplies to increase science equipment, technology and fund curriculum adoption
- Assistant Discipline Principals
- Increase offerings for the exit exam electives
- Recruitment in teacher area
- Advertising for enrollment publicity
- In—School Suspension K-12

- Continued inclusion of School Board Goals
- Spelling Plan expenditures
- Increase substitute pay
- Create a third shift at either or both SAVE programs
- Develop an internship program for principals
- Transportation—change starting times of high schools to 8 a.m.
- Parking Fees

OTHER FUNDS

Food Service Fund—This fund is used to budget and account for operations of the Student Nutrition Program. Employee benefits and payroll taxes (as required by contract), personnel costs, food and materials costs, equipment repair and replacement, and incremental costs to provide additional meals for students have been included in the budget projections for FY 2000-01. Adjustments have been made for pending contract negotiations. The projections also include the Administration's contract proposal for AEA that includes five additional days of students being served. Equipment replacement plans include upgrading central kitchen equipment as well as the school kitchens. In addition, delivery vehicles are included in the projections.

Sales revenue, undesignated fund balance, as well as federal reimbursement will balance Food Service revenues with expenditures. The undesignated fund balance for the Food Service Fund as of June 30, 1999 is approximately \$598,000. These projections are based on the most recent information; and it is projected that no local tax support will be required for the Food Service Fund in FY 2000-01.

Debt Service Fund—This fund is used to budget and account for principal and interest payments on existing school bonds as well as the revenues necessary to fund these expenditures. State reimbursement entitlement ranges from 53 to 80 percent of related debt service, depending on the year in which the debt was approved. The projections include the anticipated sale of bonds in the first quarter of 2000 related to the April 1999 voter-approved propositions. Potential bond propositions have not been included in the projections pending the School Board approval scheduled on December 13, 1999.

Local / State / Federal Projects Fund—Expenditures in the Local/State/Federal Projects Fund are offset by matching revenues. The District continues to be successful in increasing grant funding from various State and Federal agencies and other sources. Revenues available through grants for these projects include competitively awarded grant funds—most of which are subject to federal and State annual appropriations. It is projected that budgets for FY 2000-01 grants will increase approximately 14 percent based on the favorable receipt of grants for FY 1999-2000. The projection is based on actual grants received (approximately \$21 million) for FY 1999-2000. All indicators point to a strong national economy in the future; therefore, the District should continue to receive uninterrupted funding for the Local/State/Federal programs.

FISCAL YEAR BUDGET COMPARISON

The following schedule compares by fund the FY 2000-01 projected revenue/expenditures with those currently approved for FY 1999-2000. These projections include funding for the current on-going contract negotiations for Anchorage Education Association, Anchorage Principals' Association, General Teamsters covering Warehouse and Maintenance employees, and the Food Service bargaining unit. Contracts for FY 2000-01 that have been settled are the Anchorage Council of Education (ACE), TOTEM (educational support), Custodians (Local 71), and the Teamsters-Bus Drivers and Attendants.

REVENUE/EXPENDITURE BUDGETS

	Adopted Budget FY 1999-2000	Initial Estimate for FY 2000-01	% Over Prior Yr.
General Fund	\$327,981,667	\$340,504,331	3.82%
Food Service	10,000,000	10,650,000	6.50%
Debt Service	39,018,252	39,652,800	1.63%
L/S/F Projects	<u>21,000,000</u>	<u>24,000,000</u>	14.29%
All Funds	<u>\$397,999,919</u>	<u>\$414,807,131</u>	4.22%
TAXES	Adopted Budget FY 1999-2000	Initial Estimate for FY 2000-01	% Over Prior Yr.
General Fund	\$ 97,565,255	\$103,484,000	6.07%
Debt Service	<u>20,068,118</u>	<u>21,927,367</u>	9.26%
All Funds	<u>\$117,633,373</u>	<u>\$125,411,367</u>	6.61%

In preparing the FY 2000-01 Financial Plan, many budget development uncertainties face the District. **There will be many changes throughout the upcoming month.** As these changes occur, they will be incorporated into the budget before presentations to the School Board in January 2000. Some of the uncertainties include:

- Potential cuts to municipal revenue sharing
- Projected enrollment

- FY 2000-01–Contract negotiations for Anchorage Education Association, Anchorage Principals’ Association, General Teamsters covering Warehouse and Maintenance
- CPI and 5-Year average population growth used for local tax limitation not finalized until February 2000
- New construction and assessed valuation amounts used for local tax limitation not finalized until March 2000
- Federal Impact Aid subject to annual appropriation
- Potential bond propositions for next April 2000 Election
- Inclusion of Alaska Mandarin Immersion Charter School
- Impact of part-time students
- Medicaid reimbursement

SUMMARY

Our assumptions in preparing the initial FY 2000-01 projections were based on, but not limited to, the following criteria:

- Balanced budget for presentation to the Anchorage Assembly– Expenditures equal Revenues
- State revenue based on the passage of Senate Bill 36
- Local Property Taxes–Full amount available under the property tax limitation
- Fund Balance as revenue source–Fund Balance was used in the projections for FY 2000-01. Including the recommendations contained in this memorandum, the amount of local fund balance that may be available as of the end of June 30, 2000 is projected to be \$5.62 million or 1.65 percent of the initial expenditure budget of \$340.50 million.
- No increase to current User Fees projected for FY 2000-01
- Potential adoption or expansion of programs must be funded within existing resources
- Continuation of \$1.0 million for School Board directed goals
- Continuation of \$500,000 of redirection of Underachieving Schools’ funding to the Reading Program and Elementary Summer School
- Continuation of \$200,000 for Graduation Support Services
- Continuation of \$150,000 for Summer School
- Continuation of \$1.368 million for Textbook Adoption
- Continuation of \$375,000 for the Music improvement program
- Continuation of \$520,000 for Middle School Reading Task Force
- Continuation of \$500,000 for Secondary graduation Qualifying Exam School Reading Task Force

BC/JS/MSL

Attachments

Prepared by: Marie S. Laule, Budget Director

Approved by: Janet Stokesbary, Chief Financial Officer