

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #116 (2000-2001)

November 20, 2000

TO: SCHOOL BOARD
FROM: OFFICE OF THE SUPERINTENDENT
SUBJECT: FY 2001-2002 FINANCIAL PLANNING

RECOMMENDATION:

It is the Administration's recommendation that the School Board approve and authorize the Superintendent to prepare the Anchorage School District's FY 2001-2002 Preliminary Financial Plan in accordance with the financial projections set forth in this memorandum. Specifically, the budget for FY 2001-2002 is to be established for planning purposes with projected revenue not-to-exceed \$422,124,236. This includes individual fund budgets currently projected as follows:

	<u>FY 2001-2002 Financial Plan</u>
General Fund	\$ 336,322,258
Food Service Fund	11,050,000
Debt Service Fund	47,751,978
Local/State/Federal Projects Fund	<u>27,000,000</u>
Total - All Funds	<u>\$ 422,124,236</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, Administration/Budget Review Team recommendations as implemented by the Superintendent, and results of further study of the correspondence program. In addition, flexibility must be allowed for adjustments based on updated demographic and/or economic information, as well as 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 2001-2002 financial planning process. This memorandum presents financial planning considerations that will be used in developing the FY 2001-2002 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.

The initial FY 2001-2002 budget projections reflect the District's on-going efforts to achieve this balance, maximize performance and contain costs.

These initial projections for FY 2001-2002 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 priorities, as budgeting is a progressive process. The balanced budget concept, Alaska Public School Funding, and the local property tax limitation necessitate early predictions of both revenues and expenditures. Departments and schools review their programs and responsibilities; assess what is being done during the current fiscal year; begin making plans for next year and future years and then prepare budget requests based on their program requirements. Input from community members and staff members may result in change or elimination of existing programs or implementation 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 or teaming with other agencies.

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.

Then, the total of all department 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 Enrollment Projections, General Fund Revenues and Expenditures, and Other Funds summarize the principal financial planning factors involved in preparing initial FY 2001-2002 projections. Major revenue and expenditure considerations and budget development criteria are also included.

STUDENT ENROLLMENT 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 49,663 for the fall of 2001. Since that time Village Charter School has submitted a request for review and approval for an increase to the student enrollment by 24 students. This request is being brought forward for School Board approval on November 20, 2000. If approved, the total enrollment for September 30, 2001 is projected to be 49,687. 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, 2001 with School Board approval of Village Charter School's addition of 24 students is 49,687 students. This reflects an increase of 167 students from the September 30, 2000 official membership total of 49,520.

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 1998-99 through FY 2001-2002 on both a full count and FTE basis. The enrollment includes the expansion of full-day kindergarten at 12 additional schools, which as shown below, narrows the variance between the total number of students and FTE for FY 2001-2002.

	Actuals 1998-1999 <u>9/30/98</u>	Actuals 1999-2000 <u>9/30/99</u>	Actuals 2000-2001 <u>9/30/00</u>	Projected 2001-2002 <u>9/30/01</u>
Total Number	49,551	49,312	49,520	49,687
Change over previous year Actual/Projection		(239)	208	167
FTE (Full-Time Equivalent)	48,462	48,553	49,002	49,522

Variable General Fund expenditures will be revised periodically for changes in enrollment projections. 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 2001.

GENERAL FUND

The General Fund, consisting of each school and department's budget, accounts for the majority of the District's operations and activities. Therefore, this 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, including the expansion of the full-day kindergarten program at 12 additional schools, the amount of funding for FY 2001-2002 is \$193,356,000, which is \$6.80 million less than the current FY 2000-2001 budget. This is a result of the change in the Family Partnership's Charter School status from a regular charter school to correspondence school, larger deduction resulting from increased State assessed property valuation of \$904.8 million and the loss of the one-time Learning Opportunity Grant 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 and special needs formulae 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. The Alaska Department of Community and Economic Development has notified the District that the assessed valuation for Anchorage has increased from \$15.668 to \$16.573 billion.

Local Property Taxes—Local property tax contribution is the District's second largest General Fund revenue source. **Projected local property tax revenue for FY 2001-2002**

is based on requesting the full amount of taxes available under the local property tax limitation. The local property tax limitation provides for an annual adjustment for inflation, five-year Anchorage population change and new construction.

The projected inflation rate used for planning purposes is 1.25 percent. This preliminary estimate is the rate being used by both the District and the Municipality of Anchorage in the property tax limitation calculations. The official Consumer Price Index will not be available until February 2001. As determined by the State Department of Community and Regional Affairs, the five-year Anchorage municipal population change used for planning purposes is .33 percent. The projected combined rate of 1.58 percent for FY 2001-2002 is .31 percent less than the current rate of 1.89 percent for FY 2000-2001.

It is anticipated that this increase—and increased taxes allowed on new construction or property improvement—will increase the amount of taxes available in the General Fund by approximately \$4.011 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 100 percent of projected entitlement, an anticipated increase of \$.8 million from the FY 2000-2001 budget amount of \$8.7 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 2001-2002 Federal Impact Aid until after October 1, 2002.

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 2001-2002 Financial Plan. The undesignated fund balance as of June 30, 2000 is approximately \$12.43 million. Of this amount, \$2.2 million of the undesignated fund balance is being recommended to support the one-time expenditure of the Anchorage Education Association Service Recognition Program as approved in the current bargaining agreement. This will leave an approximate balance of \$10.23 million, which is 3.04 percent of the FY 2001-2002 General Fund budget as presented in this memorandum.

The District will be receiving an additional \$5,047,774 of tax support for the current year based on AO 2000-39 (S-1) As Amended, which was approved by the Anchorage Assembly in April 2000. Since the voters did not approve the Tax Cap Initiative (99PTAR) on November 7, 2000, this ordinance states that the District will receive this additional amount of local taxes after the Lieutenant Governor certifies the State election. Depending upon the actual receipt of revenues compared to actual expenditures in FY 2000-2001 and the changes in fund balance reserves/designations, the impact on the undesignated fund balance as of June 30, 2001 will not be known until year-end. For example, all anticipated revenues may not be received this year. The District has recently been notified that a shortfall in State pupil transportation appropriation last year will result in the District receiving approximately \$785,000 less pupil transportation revenue this year due to the late notification.

Pupil Transportation Reimbursement—The proposed FY 2001-2002 revenue projections for Pupil Transportation are based on full funding for the District and contracted routes, less mid-day kindergarten and one-half hazardous routes.

User Charges and Fees—For the FY 2001-2002 budget, fees will continue to be assessed for musical instrument usage, student transcripts, ASD documents, High School and Middle School Student Activity fees, (both of which are under review for possible adjustment based on variable costs) summer school, rental fees and fees for Community Education. Included in these projections are fee increases for the K-12 summer school program from \$50/session to \$75/session and an increase from the FY 2000-2001 budgeted amount of \$380,000 to \$500,000 for facilities' rental. The recommended facilities' rental revenue increase is based on FY 1999-00 actuals of \$444,835, which was \$104,835 more than budgeted, as well as the recommendation to increase rates which was made by the Budget Review Team in this area. In addition,

an increase in the credit course fee share to the District for courses provided by the Training and Professional Development department from the current \$5 to \$20/person/course as recommended by the Budget Review Team in this area, is included. Although further review and approval by the School Board of the rate adjustments will need to be made, it is recommended that an increase is appropriate at this time.

Medicaid—Based on FY 1999-2000 actual revenues and current year projections, it is estimated that the District will receive approximately \$500,000 in Medicaid funding based on information from the Alaska Department of Education and Early Development (DEED).

E-Rate—The District has received formal notification from the School and Libraries Division of the Universal Service Administrative Company that the District's application for E-rate funds for FY 2000-2001 school year was approved. This approval marks the third consecutive year in which the District's E-rate application has been approved. The District is expecting to receive a contribution of approximately \$1.1 million for FY 2001-2002. However, a change in the way the District reports the E-rate funds has been proposed by DEED in the Chart of Accounts' revisions that are now under consideration by the State Board of Education and Early Development. The District will be required to report E-rate funds as revenues rather than credit to expenditures. These funds are included in the budget as a revenue source, offset by a corresponding increase in communications expenditures.

Expenditures

Primarily student and program needs and a commitment to use the funds economically drive expenditure projections. Over the next several weeks the Budget Review Teams' recommendations will be considered and incorporated into the budget where appropriate and may change the following assumptions used for these projections. Both revenue enhancements and expenditure reductions will be incorporated to bring the budget into balance.

Salaries and Benefits—Employee salaries, wages, and benefits are projected to be approximately 85 percent of the operating cost of the District. This memorandum assumes no change in costs stemming from the re-negotiation of collective bargaining agreements that either expire next June 30 (Local 71, TOTEM, and Teamster Bus/Attendants) or contain re-openers for certain items (Anchorage Principal Association (APA) and Anchorage Council of Education (ACE)). Depending upon the settlement parameters defined by the School Board for collective bargaining this year, the total revenue needed to support the programmatic assumptions discussed herein may increase. Alternatively, the Board may authorize and complete contract settlements that will require programmatic changes not yet discussed. Compensation

provisions for completed contacts 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.

Average Teacher Salary—A review and analysis of the current teacher salaries will be made to assist in determining the average teacher salary to be used in the budgeting process for FY 2001-2002. Contributing factors that will determine the average teacher salary to be used based on historical information will be step increases, educational attainment and projected turnover. An analysis of the number of vacancies at any given time will also be considered.

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

Certificated Teaching Positions—Budgeted teaching staff is based on the FY 2000-2001 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. These ratios in grades 2-12 reflect the increase by 1 FTE in the spring of 2000 due to budget reductions.

Kindergarten (FTE)	20.5 to 1
Grades 1	21 to 1
Grade 2-3	25 to 1
Grades 4-6	28 to 1
Grades 7-8	26.25 to 1
Grades 9-12	27.91 to 1
Special Education	Staffing is based upon Demonstrated need and Program (consistent with current year)

Indirect Cost—Based on a Budget Review Team recommendation, three positions (2 FTE) will be transferred from the Food Service Fund to the General Fund. In exchange, the Food Service Fund will be charged the State approved indirect cost rate. This will more accurately reflect the cost of services provided the Food Service Fund by various departments budgeted in the General Fund. The financial impact will be increased expenditures in the Food Service Fund and reduced expenditures in the General Fund.

Contracted Services—Where appropriate, an inflationary adjustment to contracts will occur. A very close review of actual contracted services 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 as announced by the utility agencies. In recent weeks the District has been notified of 2 to 30 percent rate increases for the utilities.

Pupil Transportation—All contracted pupil transportation routes for FY 2001-2002 is up for re-bidding. The bid opening is scheduled for November 28, 2000. There currently is an estimated increase of 5 percent included in the projections in this memorandum.

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. 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 departments, 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). The current projections include the same school supply and equipment per pupil allocation as in the current year.

Equipment—Where appropriate, careful consideration will be given to appropriate funds for the purchase of equipment. The projections in this memorandum do not include funds for the purchase of buses. However, it must be remembered that if the District-owned vehicles and buses are not replaced on a regular basis, in higher maintenance costs will result.

McLaughlin Youth Center Summer School An extended summer school at McLaughlin Youth Center has been requested. The Administration would like to extend the McLaughlin school year to include an eight-week summer term as part of the school's long range plan to have year-round school. This extension concept is fully supported by juvenile probation and corrections at the local and State level; however, State funding is tentative. The year-round school program was one of the strong recommendations made by the ten-year school improvement evaluation team. The program is currently budgeted for 23 days between June and July and is requesting 17 extra days of funding to run the program. This extension would add three more weeks to the summer program. The corresponding expenditures and revenues are included in the projections within this memorandum. If the State will not provide additional

funding to support the extension of the summer school program at the McLaughlin Youth Center, the District will not offer the program.

Charter Schools—Village Charter School has requested an increase in enrollment from 120 students to 144 students for FY 2001-2002, which is being brought to the School Board on November 20, 2000 for approval. Walden Pond Charter School's projected enrollment of 210 students for FY 2000-2001 did not materialize. The enrollment for the current year is 149 students. For FY 2001-2002 the projections have been reduced to 154 students. In December the Administration will be bringing forward a recommendation on Walden Pond for FY 2000-2001 which may affect FY 2001-2002. Based on the final decision by the School Board, the Administration will proceed accordingly. The current projections include the adjusted enrollments for Village and Walden Pond Charter Schools.

Additional Programs/Enhancements—At the School Board Work Session on October 23, 2000 the School Board requested the Administration consider several program enhancements/changes for inclusion in the FY 2001-2002 Financial Plan. Discussions have been on-going over the last month and several of the School Board's suggestions have been included in this memorandum. During the next several weeks, careful review and consideration of the following items will be made and may or may not be included in the Preliminary Budget presented to the School Board in January.

- Full-Day Kindergarten expansion for the remaining schools
- Correspondence Program
- Add more to the pool for classes over 30—K-12
- Extended Summer School
- Increase course offerings to deal with bench mark/exit exam results
- Flexible activities fees
- Review/reprioritize textbook adoptions
- Parking fees
- Graduation support services

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, indirect charges, 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 2001-2002.

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, 2000 is approximately \$994,501 which is 9 percent

of the Food Service Fund as presented in this memorandum. 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 2001-2002.

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. Some of the District’s bonds receive State debt reimbursement, which varies depending on the year in which the bond sale was approved. The projections include the anticipated sale of \$65 million of bonds in the first quarter of 2001 related to the April 1999 voter-approved propositions. Potential bond propositions for April 2001 have not been included in the projections pending the School Board approval scheduled for December 11, 2000.

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 2001-2002 grants will increase approximately \$1.0 million based on the favorable receipt of grants in FY 2000-2001. The projection is based on actual grants received (approximately \$24 million) for FY 2000-2001. All indicators point to a strong national economy in the future; therefore, the District should continue to receive the same or greater level of funding for the Local/State/Federal programs.

FISCAL YEAR BUDGET COMPARISON

The following schedule compares by fund the FY 2001-2002 projected revenue/expenditures with those currently approved for FY 2000-2001. The amount of the projected General Fund expenditure budget is \$12.6 million more than the amount projected for revenues. At this time, many unknowns still remain such as charter school enrollment adjustments/closure, contract negotiations, and mandated services that may require funding.

REVENUE/EXPENDITURE BUDGETS

	Revised Budget FY 2000-2001	Pro Forma Budget Revenues FY 2001-2002	Pro Forma Budget Expenditures FY 2001-2002	Estimated Budget Shortfall FY 2001-2002
General Fund	\$339,176,879	\$336,322,258	\$348,950,000	(\$12,627,742)
Food Service	10,650,000	11,050,000	11,050,000	-0-
Debt Service	42,377,520	47,751,978	47,751,978	-0-
L/S/F Projects	<u>26,000,000</u>	<u>27,000,000</u>	<u>27,000,000</u>	<u>-0-</u>
All Funds	<u>\$418,204,399</u>	<u>\$422,124,236</u>	<u>\$434,751,978</u>	<u>(\$12,627,742)</u>

TAXES

	Revised FY 2000-2001	Pro Forma Taxes FY 2001-2002	Increase
General Fund	\$102,613,029*	\$106,624,624	\$4,011,595
Debt Service	<u>23,986,502</u>	<u>29,623,295</u>	<u>5,636,793</u>
All Funds	<u>\$126,599,531</u>	<u>\$136,247,919</u>	<u>\$9,648,388</u>

* Includes \$5,047,774 of taxes based on the Tax Cap Initiative 99PTAR not being approved by the voters on November 7, 2000

Student Enrollment Projections

	FY 2000-2001 Actuals Sept. 30, 2000	FY 2001-2002 Projected Sept. 30, 2001	Change Over Prior Year's Actual
Enrollment	49,520	49,687	167
Full Time Equivalent (FTE)	49,002	49,522**	520

** Twelve more schools are recommended for expansion of full-day kindergarten. In these projections, three schools will still have half-day kindergarten.

In preparing the FY 2000-2001 Financial Plan, many budget development uncertainties face the District.

- Projected enrollment
- FY 2001-2002—Contract negotiations for Local 71, TOTEM and Teamster Bus/Attendants or for agreements that contain re-openers for certain items (APA and ACE)

- CPI and 5-year average population growth used for local tax limitation not finalized until February 2001
- New construction and assessed valuation amounts used for local tax limitation not finalized until March/April 2001
- Federal Impact Aid subject to annual appropriation
- Status of Charter Schools
- Medicaid reimbursement

SUMMARY

Our assumptions in preparing the initial FY 2001-2002 projections were based on, but not limited to, the following criteria:

- Balanced budget for presentation to the Anchorage Assembly—Expenditures equal Revenues
- Local Property Taxes—Full amount available under the property tax limitation
- Fund Balance as revenue source—\$2.2 million of Fund Balance was used in the projections for FY 2001-2002. Including the recommendations contained in this memorandum, the amount of undesignated fund balance that may be available as of the end of June 30, 2001 is projected to be \$10.23 million or 3.04 percent of the initial expenditure budget of \$336.3 million.
- Increase to current User Fees where appropriate
- Potential adoption or expansion of programs must be funded within existing resources
- Maintain current Family Cap on High/Middle School Activity Fees

Funding for these and other programs are included in these projections set forth in this memorandum may be either redirected or eliminated to balance revenues with expenditures.

- Continuation of \$812,000 Elementary Reading
- Continuation of \$119,000 for Graduation Support Services
- Continuation of \$973,000 for Summer School – grades K-12
- Continuation of \$375,000 for the Music Improvement
- Continuation of \$644,000 for Middle School Reading
- Continuation of \$657,600 for High School Reading/Graduation Qualifying Exam
- Continuation \$50,000 Schools of Choice
- Continuation of \$948,000 Textbook Adoption

CC/JS/MSL

Attachments

Attachment A, Projected Revenues and Expenditures Summary

Attachment B, Computation of Property Tax Limitation

Attachment C, Schedule of General Fund Revenues from Local Sources/Fund
Balance

Attachment D, Schedule of General Fund Revenues from State Sources

Attachment E, Schedule of General Fund Revenues from Federal Sources

Prepared by: Marie S. Laule, Budget Director

Approved by: Janet Stokesbary, Chief Financial Officer