

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #102 (2001-2002)

November 12, 2001

TO: SCHOOL BOARD
FROM: OFFICE OF THE SUPERINTENDENT
SUBJECT: FY 2002-2003 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 2002-2003 Preliminary Financial Plan in accordance with the financial projections set forth in this memorandum. Specifically, the budget for FY 2002-2003 is to be established for planning purposes with projected revenue not-to-exceed \$454,116,140. This includes individual fund budgets currently projected as follows:

	<u>FY 2002-2003 Financial Plan</u>
General Fund	\$ 354,300,000
Food Service Fund	11,600,000
Debt Service Fund	53,216,140
Local/State/Federal Projects Fund	<u>35,000,000</u>
Total - All Funds	<u>\$ 454,116,140</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, community, staff and students' budget review recommendations as implemented by the Superintendent. 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 2002-2003 financial planning process. This memorandum presents financial planning considerations that will be used in developing the FY 2002-2003 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 2002-2003 budget projections reflect the District's on-going efforts to achieve this balance, maximize performance and contain costs.

These initial projections for FY 2002-2003 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. (Attachment A) The budget development process is mindful of 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 and what progress is being made; begin making plans for next year and future years and then prepare budget requests based on their program requirements and how they support the Goals and Mission of "educating students for success in life." 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 2002-2003 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. 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.

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 1999-2000 through FY 2002-2003 on both a full count and FTE basis.

	Actuals 1999-2000 <u>9/30/99</u>	Actuals 2000-2001 <u>9/30/00</u>	Actuals 2001-2002 <u>9/30/01</u>	Projected 2002-2003 <u>9/30/02</u>
Total Number	49,312	49,520	49,676	49,922
Change over previous year 246 Actual			208	156
FTE (Full-Time Equivalent)	48,553	49,002	49,441	49,701

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 2002.

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. The School Board and the Administration appreciate the significant increase in revenue funding to the Alaska Public School Funding Program approved by the Legislature during the last session, as well as doubling the Learning Opportunity Grant allocation. Hopefully, during this upcoming legislative session, the Legislature will continue to advocate for the students in our communities, by funding an increase in revenues supporting public education.

This Program is expected to provide approximately 58 percent of the District's General Fund revenues. This is based on continuing the same per pupil amount for the base student allocation (\$4,010), Quality School Grant (\$16) and Learning Opportunity Grant (\$92.81) approved during the last Legislative session. Since the work session on October 29, 2001, the staff in the Business Management Division worked with the Department of Education and Early Development regarding interpretation of the Foundation Program calculations that were beneficial to the District. These changes involve the required deductions for local effort and Federal Impact Aid. Currently, the DEED has agreed to one change that resulted in \$1.9 million additional Foundation Aid. Based on current enrollment projections, the amount of funding for FY 2002-2003 is \$204.9 million, which is \$4.84 million less than the current FY 2001-2002 budget. This is a result of the projected student enrollment for FY 2002-2003 of 49,922 being 334 less than the FY 2001-2002 projected enrollment of 50,256. In addition, the State assessed property valuation for the Municipality increased \$1.69 billion, which results in a larger required deduction causing a loss of \$3.4 million 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 one-half of the annual increase in total State assessed full and true valuation of local real estate, inventory and other taxed personal property for the second preceding year, added to the prior year's required local effort. **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 \$16.575 to \$18.262 billion. If the Twenty-second Legislature had not amended the funding formula last May, the District would lose an additional \$1.8 million in the current year and an additional \$5.2 million in FY 2002-2003, due to the increase in assessed property valuation.

Local Property Taxes—Local property tax contribution is the District's second largest General Fund revenue source. **Projected local property tax revenue for FY 2002-2003 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 2.90 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 2002. As determined by the State Department of Community and Regional Affairs, the five-year Anchorage municipal population change used for planning purposes is .73 percent. The projected combined rate of 3.63 percent for FY 2002-2003 is 1.66 percent more than the current rate of 1.97 percent for FY 2001-2002.

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 \$6.457 million. However, the Anchorage Assembly must first consider and approve the District's local property 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 \$1.0 million from the FY 2001-2002 budget amount of \$9.5 million for a total of \$10.5 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 2002-2003 Federal Impact Aid until spring, 2003.

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. As of June 30, 2001, the undesignated fund balance was approximately \$17.1 million or 4.8 percent of the FY 2002-2003 initial financial plan budget of \$354.3 million.

At this time the Administration has not assumed any use of the Fund Balance as a revenue source. The Administration is seeking direction from the School Board on the possible use of Fund Balance to reduce the fiscal gap and to avoid reduction in various District activities when bringing the Preliminary FY 2002-2003 Financial Plan forward in January 2002. In the past, the School Board has approved the use for one-time expenditures.

Pupil Transportation Reimbursement—The proposed FY 2002-2003 revenue projections for Pupil Transportation are based on full funding for the District and contracted routes, less hazardous routes.

User Charges and Fees—For the FY 2002-2003 budget, fees will continue to be assessed for musical instrument usage, ASD documents, High School and Middle School Student Activity fees, High School parking fees, summer school, credit course training fees, rental fees and fees for Community Education. Further review and approval by the School Board of the rate adjustments will need to be made if they are to be included in the financial plan for FY 2002-2003.

Medicaid—Based on FY 2001-2002 actual revenues and current year projections, it is estimated that the District will receive approximately \$800,000 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 school facility communication upgrades for FY 2001-2002 school year was approved for all eligible services. The District is expecting to receive a contribution of approximately \$1.1 million for FY 2002-2003. These funds are included in the budget as a revenue source, offset by corresponding 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 recommendations submitted from the community forums, other interested community members who submitted suggestions by e-mail or by regular mail, staff, students, the administration and the Budget Review Teams' recommendations of this year as well as last year, 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 contains a medical re-opener for Anchorage Education Association (AEA) and a salary and medical re-opener for Teamsters 959 (Maintenance). Depending upon the settlement parameters defined by the School Board for collective bargaining for these contracts, the total revenue needed to support the programmatic assumptions discussed herein may be revised. Compensation provisions for completed contracts 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—Further 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 2002-2003. 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. In addition, the Service Recognition program will be offered during FY 2001-2002. A review of those who take advantage of this opportunity will also determine the average teacher salary for FY 2002-2003. 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 2001-2002 PTR (pupil to classroom teacher staff ratios), which continues with the staffing ratio adjustments, made at the second through twelfth grade. These ratios reflect the decrease in the PTR of 1 as of spring 2001. This reduction is due to increased funding in the Foundation Program and Learning Opportunity Grants.

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	25.54 to 1
Grades 9-12	27.08 to 1
Special Education	Staffing is based upon Demonstrated need and Program (consistent with current year)

Indirect Cost—In addition to charging eligible grants, the Administration plans to continue the practice put in place during the current year for charging the Food Service Fund 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.

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. With rate adjustments and review of actual expenditures, 2 to 15 percent increases for the utilities are projected.

Pupil Transportation—Contracted pupil transportation routes for FY 2002-2003 include in estimated increase based on COLA, three special education routes and one regular route.

Major Maintenance—The Administration recommends maintaining the funding level for major maintenance projects of \$2,670,450 for some of the District's more than 80 school facilities. As our facilities continue to age, 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—Equipment purchases between \$5,000 and \$50,000 will be purchased from the Equipment Replacement Fund. The projections in this memorandum do not include funds for the purchase of buses or any maintenance vehicles.

Additional Programs/Enhancements—At the School Board Work Session on October 29, 2001 the School Board requested the Administration consider several program enhancements/changes for inclusion in the FY 2002-2003 Financial Plan. 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.

- Prioritize expenditures to support School Board Goals
- Decrease staffing ratio in grades K-3
- Increase teacher assistants

- Change in the Gifted Plan of Delivery
- Charge Charter Schools for rent, snow removal, and preventative maintenance items
- Increase parking fees

OTHER FUNDS

Food Service Fund—This fund is used to budget and account for operations of the Student Nutrition Program. The budget for this fund covers both the direct and indirect cost of providing meals to students. These costs include all payroll costs, food costs, the cost of support services, equipment repair and replacement costs, and indirect overhead charges. The FY 2002-2003 budget has been increased to accommodate the employee-negotiated contracts, upward movement in food costs, an increase in the indirect costs, and also to cover planned High School cafeteria upgrades.

The revenue sources for the Food Service budget includes revenue from meal sales, Federal reimbursement for meals served, and the undesignated fund balance. This budget projects increases in meal sales and reimbursement revenue.

The Administration is recommending the use of Fund Balance for the FY 2002-2003 Food Service budget. The undesignated fund balance for the Food Service Fund as of June 30, 2001 was approximately \$481,000. Of this amount, \$200,000 is being recommended to support the FY 2002-2003 Food Service budget. This will leave an approximate amount of \$281,000, which is 2.4 percent of the FY 2002-2003 Food Service Fund budget as presented in this memorandum. These projections do not reflect any changes in the meal prices and it is projected that no local tax support will be required for the Food Service Fund in FY 2002-2003.

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 proposition was approved. The projections include the anticipated sale of \$73.15 million of bonds in the second quarter of FY 2002-2003 related to the April 1999 voter-approved propositions. Potential bond propositions for April 2002 have not been included in the projections.

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 2002-2003 grants will increase approximately \$1.0 million based on the anticipated favorable receipt of grants in FY 2001-2002. 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 2002-2003 projected revenue/expenditures with those currently approved for FY 2001-2002. The amount of the projected General Fund expenditure budget is **\$3.7 million more** than the amount projected for revenues. At this time, unknowns still remain such as contract negotiations and mandated services that may require funding.

REVENUE/EXPENDITURE BUDGETS

	Revised Budget <u>FY 2001-2002</u>	Pro Forma Budget Revenues <u>FY 2002-2003</u>	Pro Forma Budget Expenditures <u>FY 2002-2003</u>	Estimated Budget Shortfall <u>FY 2002-2003</u>
General Fund	\$355,920,728	\$354,300,000	\$358,000,000	(\$3,700,000)
Food Service	10,983,000	11,600,000	11,600,000	-0-
Debt Service	47,751,978	53,216,140	53,216,140	-0-
L/S/F Projects	<u>34,000,000</u>	<u>35,000,000</u>	<u>35,000,000</u>	<u>-0-</u>
All Funds	<u>\$448,655,706</u>	<u>\$454,116,140</u>	<u>\$457,816,140</u>	<u>(\$3,700,000)</u>

TAXES

	Revised <u>FY 2001-2002</u>	Pro Forma Taxes <u>FY 2002-2003</u>	Increase (Decrease)
General Fund	\$107,301,568	\$113,758,901	\$6,457,333
Debt Service	<u>28,219,506</u>	<u>23,164,895</u>	(<u>5,054,611</u>)
All Funds	<u>\$135,521,074</u>	<u>\$136,923,796</u>	<u>\$1,402,722</u>

The increase of \$1.4 million of overall taxes being requested for FY 2002-2003 will result in a reduction in taxes per \$100,000 of assessed valuation. Based on the estimated 2002 total assessed valuation received from the Municipality on October 8, 2001, it is anticipated that the mill levy will be reduced from 8.20 mills to 8.08 mills.

STUDENT ENROLLMENT PROJECTIONS

	FY 2001-2002 Actuals <u>Sept. 30, 2001</u>	FY 2002-2003 Projected <u>Sept. 30, 2002</u>	Change Over Prior <u>Year's Actual</u>
Enrollment	49,676	49,922	246
Full Time Equivalent (FTE)	49,441	49,701	260

In preparing the FY 2002-2003 Financial Plan, many budget development uncertainties face the District.

- School Board areas of interest
- Projected enrollment
- FY 2002-2003—Contract for Anchorage Education Association (AEA) medical re-opener and the Teamsters 959 contract with salary and medical re-openers
- Title IX sports
- Alaska Studies
- Closed campuses
- Expansion of summer school
- Class size reduction
- Community, staff, students and Budget Review Team recommendations
- Additional positions other than class size reduction
- Implementation of Management Audit recommendations
- CPI and 5-year average population growth used for local tax limitation not finalized until February 2002
- New construction and assessed valuation amounts used for local tax limitation not finalized until March/April 2002
- Federal Impact Aid subject to annual appropriation
- Medicaid reimbursement
- Legislative action

SUMMARY

Our assumptions in preparing this initial FY 2002-2003 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
- No use of Fund Balance as a revenue source—the undesignated fund balance as of June 30, 2001 was \$17.1 million or 4.8 percent of \$354.3 million
- Potential adoption or expansion of programs must be funded within existing resources
- Maintain current Family Cap on High/Middle School Activity Fees
- Maintain current user fees

Attachments

CC/JS/MSL

Prepared by: Marie S. Laule, Budget Director

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