

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #101 (2002-2003)

November 11, 2002

TO: SCHOOL BOARD
FROM: OFFICE OF THE SUPERINTENDENT
SUBJECT: FY 2003-2004 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 2003-2004 Preliminary Financial Plan in accordance with the financial projections set forth in this memorandum. Specifically, the budget for FY 2003-2004 is to be established for planning purposes with projected revenue not-to-exceed \$484,279,385. This includes individual fund budgets currently projected as follows:

	<u>FY 2003-2004 Financial Plan</u>
General Fund	\$ 372,765,000
Food Service Fund	13,120,000
Debt Service Fund	58,394,385
Local/State/Federal Projects Fund	<u>40,000,000</u>
Total – All Funds	<u>\$ 484,279,385</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:

Since the financial planning work session on November 4, the Business Management staff continued to review all revenue sources and expenditures. Further review and input from discussions at the work session, has resulted in the fiscal gap being reduced. 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 2003-2004 financial planning process. This memorandum presents financial planning considerations that will be used in developing the FY 2003-2004 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 FY 2003-2004 budget projections reflect the District's on-going efforts to achieve this balance, maximize performance and contain costs.

These initial projections for FY 2003-2004 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 the current School Board Goals. (Attachment A) New School Board goals focusing on student achievement and school safety will be adopted by mid December. 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 2003-2004 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 2000-2001 through FY 2003-2004 on both a full count and FTE basis.

	Actuals 2000-2001 <u>9/30/00</u>	Actuals 2001-2002 <u>9/30/01</u>	Actuals 2002-2003 <u>9/30/02</u>	Projected 2003-2004 <u>9/30/03</u>
Total Number	49,520	49,676	50,029	50,222
Change over previous year Actual		156	353	193
FTE (Full-Time Equivalent)	49,002	49,441	49,791	49,926

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 2003.

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 continued support in revenue funding to the Alaska Public School Funding Program approved by the Legislature, 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 55 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 (\$174.90) approved during the last Legislative session. Based on current enrollment projections, the amount of funding for FY 2003-2004 is \$205.4 million, which is \$3.9 million less than the current FY 2002-2003 budget. This is a result of the projected special education intensive enrollment for FY 2003-2004 being less than projections and actual identification for the current year. Also Whaley School falls into a different funding category based on serving less than 200 students. In addition, the State assessed property valuation for the Municipality increased \$942 million, which results in a larger required deduction causing a loss of approximately \$2.0 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 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 \$18.262 billion to \$19.204 billion.

Section 93 of Senate Bill 2006—The Twenty-second Alaska State Legislature and the Governor approved \$1.922 million of additional funding to be used for programs and services. The projections included in this memorandum assume the continuation of this funding for FY 2003-2004.

Local Property Taxes—Local property tax contribution is the District's second largest General Fund revenue source. **Projected local property tax revenue for FY 2003-2004 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 2.0 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 2003. As determined by the State Department of Community and Regional Affairs, the five-year Anchorage municipal population change used for planning purposes is .78 percent. The projected combined rate of 2.78 percent for FY 2003-2004 is .49 percent less than the current rate of 3.27 percent for FY 2002-2003.

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 \$6.575 million. However, the Anchorage Assembly must first consider and approve the District's local property tax request.

Federal Impact Aid—The initial revenue projection for Federal Impact Aid has been projected at 100 percent of projected entitlement, an anticipated increase of \$1.3 million from the FY 2002-2003 budget amount of \$10.5 million for a total of \$11.8 million.

The amount of Federal Impact Aid revenue each year is uncertain because it is subject to pro-rata 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 know, for example, if the District will receive prior year adjustment payments during FY 2003-2004.

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, 2002, the undesignated fund balance was approximately \$23.574 million or 6.32 percent of the FY 2003-2004 financial plan budget of \$372.8 million.

At this time, based on guidance from the School Board at the November 4 Work Session, the Administration has included \$5.0 million of Fund Balance as a revenue source to reduce the fiscal gap and to avoid some reductions in various District activities when bringing the Preliminary FY 2003-2004 Financial Plan forward in January 2003. Using \$5.0 million of Fund Balance will provide an undesignated fund balance of \$18.574 million or 5 percent of the FY 2003-2004 projected budget of \$372.8 million.

Pupil Transportation Reimbursement—The proposed FY 2003-2004 revenue projections for Pupil Transportation are based on full funding for the District and contracted routes, less hazardous routes. (See Pupil Transportation under expenditures for reimbursable expenditures).

User Charges and Fees—For the FY 2003-2004 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. Based on input from the School Board, rate increases have not been incorporated in these projections. Further review of rate adjustments will be made.

Medicaid—Based on FY 2002-2003 actual revenues and current year projections, it is estimated that the District will receive approximately \$900,000 in Medicaid funding based on information from the Alaska Department of Education and Early Development (DEED).

E-Rate—The District has not received notification from the School and Libraries Division of the Universal Service Administrative Company if the District's application for E-rate funds for school facility communication upgrades for FY 2002-2003 school year has been approved for all eligible services. Included in these projections for FY 2003-2004 is the same revenue of \$1.148 million anticipated 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, and the administration, 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. The projections include a contract opener for Anchorage Council of Education (ACE), a salary re-opener including the minimum wage requirement for Teamsters 959 (Bus Drivers and Attendants) and compensation consideration for Exempt personnel. 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 since the financial planning work session held on November 4, allowed for the average teacher salary used in the previous projections to be reduced. As a result, the fiscal gap has been reduced. A continued review and analysis will be made to assist in determining the final average teacher salary to be used in the budgeting process for FY 2003-2004. 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 for September 30, 2003. Official projections are based on actual enrollment as of September 30, 2002.

Certificated Teaching Positions—Budgeted teaching staff is based on the FY 2002-2003 PTR (pupil to classroom teacher staff ratios). Adjustments have been included for staffing based on enrollment changes and for staff requirements based on rural-urban transitioning and immigration from other countries that provides the District with a wealth of opportunities with 91 languages spoken in the Anchorage Schools.

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 for charging the Food Service Fund the State approved indirect cost rate. This will more accurately reflect the cost of services provided to 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 percent to 8 percent increases for the utilities are projected.

Pupil Transportation—Contracted pupil transportation routes for FY 2003-2004 include an estimated increase based on COLA and the minimum wage adjustments for drivers, three and one half special education routes for Whaley School and pre-school. Also included in the projections are the expenditures associated with the closing of Wendler Middle School and transporting the students to Dimond High School while Wendler is under construction, and

eight routes to serve middle level gifted students who attend Romig, if recommended by the Administration and approved by the School Board.

Major Maintenance—The Administration recommends maintaining the funding level for major maintenance projects of \$2.674 million for some of the District's more than 89 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—Replacement equipment purchases between \$5,000 and \$50,000 will be purchased from the Equipment Replacement Fund. The projections in this memorandum include funds for the purchase of ten buses. The State Pupil Transportation program allows for expenditures incurred in transporting students to their attendance center to be reimbursed. The purchase of these ten buses will be reimbursed through this program over seven years. Also included is the continuation of emergency shelter equipment and supplies for schools serving as shelters in the event of a major emergency.

Additional Programs/Enhancements—At the School Board Work Session on November 4, 2002, the School Board requested the Administration consider several program enhancements/changes for inclusion in the FY 2003-2004 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
- ESEA – No Child Left Behind
- Curriculum Audit
- Quality Schools Initiative
- Decrease staffing ratio in grades K-3
- Change in the Gifted Plan of Delivery
- Charter Schools housing
- Copier Contract
- Bilingual and Indian Education
- Jurisdiction of Community Schools
- Alaska Studies

- Expansion of Technology Plan
- Staffing in critical areas to meet mandates

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, including increased hours for staff, food costs, the cost of support services, equipment repair and replacement costs, and indirect overhead charges. The FY 2003-2004 budget has been increased from \$12.2 million to \$13.1 million to accommodate the employee-negotiated contracts, the contract openers for Food Service and Anchorage Council of Education (ACE) personnel, upward movement in food costs, and increase in the indirect costs.

The revenue sources for the Food Service Fund 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 2003-2004 Food Service Fund budget. The undesignated fund balance for the Food Service Fund as of June 30, 2002 was approximately \$462,000. Of this amount, \$220,000 is being recommended to support the FY 2003-2004 Food Service Fund budget. This will leave an approximate amount of \$242,400, which is 1.8 percent of the FY 2003-2004 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 2003-2004. **This year's budget will be monitored through the middle of December to determine if meal price increases of fifteen to twenty cents per meal will be recommended in January, to cover increased costs rather than reducing the fund balance.**

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. Based on statewide voter approval of Proposition C on November 5, 2002, taxes for the Debt Service Fund will decrease beginning FY 2003-2004. The reduction will be determined by which voter-authorized bonds since June 30, 1999 are approved for 60 percent or 70 percent State debt reimbursement. Upon approval from DEED, the administration will bring forward in January, revisions to the Debt Service Fund incorporating the necessary adjustments to taxes and the State debt reimbursement funding.

Due to savings incurred from the sale of new bonds at lower than anticipated interest rates and refinancing outstanding bonds, the District is able to use accumulated fund balance as a revenue source, thereby reducing the amount of local taxes. Potential bond propositions for April 2003 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 2003-2004 grants will remain the same until further discussion with grant writers and acknowledgement from federal legislation.

FISCAL YEAR BUDGET COMPARISON

The following schedule compares by fund the FY 2003-2004 projected revenue/expenditures with those currently approved for FY 2002-2003. The amount of the projected General Fund expenditure budget is **\$3.435 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 2002-2003</u>	Pro Forma Budget Revenues <u>FY 2003-2004</u>	Pro Forma Budget Expenditures <u>FY 2003-2004</u>	Estimated Budget Shortfall <u>FY 2003-2004</u>
General Fund	\$360,368,861	\$372,765,000	\$376,200,000	(\$3,435,000)
Food Service	12,200,000	13,120,000	13,120,000	-0-
Debt Service	51,038,651	58,394,385	58,394,385	-0-
L/S/F Projects	40,000,000	40,000,000	40,000,000	-0-
Contingency	<u>610,655</u>	<u> </u>	<u> </u>	<u> </u>
All Funds	<u>\$464,218,167</u>	<u>\$484,279,385</u>	<u>\$487,714,385</u>	<u>(\$3,435,000)</u>

TAXES

	Revised <u>FY 2002-2003</u>	Pro Forma Taxes <u>FY 2003-2004</u>	Increase (Decrease)
General Fund	\$114,373,207	\$120,948,393	\$6,575,186
Debt Service	<u>28,581,375</u>	<u>21,855,607</u>	<u>(6,725,768)</u>
All Funds	<u>\$142,954,582</u>	<u>\$142,804,000</u>	<u>\$(150,582)</u>

The decrease of overall taxes being requested for FY 2003-2004 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 November 5, 2002, it is anticipated that the mill levy will be reduced from 7.81 mills to 7.62 mills for 2003.

Based on statewide voter approval of Proposition C on November 5, 2002, the taxes for the Debt Service Fund will decrease beginning FY 2003-2004. The reduction will be determined by what voter authorized bonds since June 30, 1999 are approved for 60 percent or 70 percent State debt reimbursement.

STUDENT ENROLLMENT PROJECTIONS

	FY 2002-2003 Actuals <u>Sept. 30, 2002</u>	FY 2003-2004 Projected <u>Sept. 30, 2003</u>	Change Over Prior <u>Year's Actual</u>
Enrollment	50,029	50,222	193
Full Time Equivalent (FTE)	49,791	49,926	135

In preparing the FY 2003-2004 Financial Plan, many budget development uncertainties face the District.

- School Board areas of interest
- Projected enrollment
- FY 2003-2004—Contract for Anchorage Council of Education (ACE), Teamsters 959 (Bus Drivers and Attendants) contract a with salary re-opener and minimum wage requirements, Food Service contract and Exempt personnel
- ESEA-No Child Left Behind requirements
- Alaska Studies
- Approval of more charter schools
- Expansion of summer school
- Class size reduction
- Community, staff, and students recommendations
- Additional positions other than class size reduction
- Implementation of Curriculum Audit recommendations
- CPI and 5-year average population growth used for local tax limitation not finalized until February 2003
- New construction and assessed valuation amounts used for local tax limitation not finalized until March/April 2003
- Federal Impact Aid subject to annual appropriation
- Medicaid reimbursement
- Legislative action

SUMMARY

Our assumptions in preparing this initial FY 2003-2004 projections are 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
- Use of Fund Balance as a revenue source—the undesignated fund balance as of June 30, 2002 was \$23.574 million or 6.32 percent of the \$372.1 million. Using \$5 million will bring the undesignated fund balance to \$18.574 or 5 percent of \$372.8 million
- State Public School Funding – no formula change and no increase to per pupil allocation of \$4,010
 - Quality Schools Grant – no increase to per pupil amount of \$16
 - Learning Opportunity Grant – same level as FY 2002-2003
- Section 93 of Senate Bill 2006 – same level as FY 2002-2003
- State Transportation – Assumes closing Wendler Middle School and transporting students to Dimond High School during construction and service for mid level gifted students to Romig Middle School if recommended by the Administration and approved by the School Board. Also assumes three and one half new special education routes for special education pre-school and Whaley school; purchase of 10 buses and COLA for the contracted transportation routes
- 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

Approved by: Janet Stokesbary, Chief Financial Officer