

CONCERN:

Consider the 2013-14 Tentative Budget

DISCUSSION:

Each local board of education is required to approve a Tentative Budget on or before May 30 each year. The purpose of this law is to assure that the local board of education has an opportunity to review all proposed revenues and expenses before the upcoming school year begins. This is the 2nd formal step in developing the 2013-14 annual working budget.

The 1st step in January was simply a review of projected revenue and expenses with no formal action by the Board. This step involves a more specific presentation of the proposed 2013-14 budget and involves formal action by the Board to adopt the budget with such changes as deemed appropriate by the Board. The remaining formal steps will come after the close of the current fiscal year when the certification of the value of taxable property is received.

REVENUE

Some basic revenue considerations and how they are addressed in this Tentative Budget are:

STUDENTS

How many students are expected to enroll and what rate of attendance will occur? State funds through the SEEK program are based on full time equivalent average daily attendance (FTE-ADA); thus, the percent attendance is an important factor in state revenue. If the FTE-ADA at the end of the first two (2) school months is higher than the first two (2) months ADA the prior year, the local district's SEEK calculation is based on the prior year ADA plus growth percent. If the FTE-ADA at the end of the first two (2) school months is lower than the first two (2) months ADA the prior year, the local district's SEEK calculation is based on the prior year.

Projected enrollment for 2013-14 staffing levels was 2,388 as discussed during the board's approval of the allocations to school councils in February. This budget is based on 2174 projected final FTE-ADA for 2012-13. Elizabethtown's 2013-14 SEEK is expected to be calculated using the prior year FTE-ADA. If final ADA for 2012-13 is more than 2,174 SEEK revenue for 2013-14 will be higher than projected. If 2012-13 final ADA is lower than 2174 or if the per pupil value is lower than \$3,827, then SEEK revenue in 2013-14 will be lower.

ASSESSED VALUE OF TAXABLE PROPERTY

What assessed value of taxable property will the Kentucky Revenue Cabinet certify? A substantial portion of local public school revenue is generated by local property tax. The assessed value of taxable property and the FTE-ADA both affect the level of funding the local school district will receive through the SEEK program. As noted during the January Draft Budget review the estimated assessed value for 2013-14 is \$672,087,357.

TAX LEVY

What tax rate will be levied? The Board may not consider a tax levy until the certified assessment and permissible tax rates are sent from the Kentucky Department of Education. The 2013-14 combined property tax rate was 65.0 cents per \$100 of assessed value for real estate and tangible property.

The 2013-14 Tentative Budget is based on a projected combined property tax rate of 65.0 cents per \$100 of assessed value for real estate and tangible property. The projected rates are the same as the rates levied the prior year but could be higher if growth in existing assessment is less than 4%. Under certain conditions Kentucky law allows a local school district to levy a rate that will generate 4% increase in local tax revenue. The projected motor vehicle rate per \$100 assessed value is 53.8 cents and the 3% utility tax levy was also projected for continuation.

BEGINNING BALANCE

How many dollars will be in the carry forward balance? The Tentative Budget's estimated unrestricted carry forward balance of \$4,915,038 is based on a careful review of expected revenues and planned expenses for the remainder of 2012-13.

SUMMARY OF PROJECTED REVENUES

Table A provides a summary of projected revenues, including beginning balances, in the 2013-14 Tentative Budget.

Table A
Summary of Projected Revenues – 2013-14 Tentative Budget

<i>Fund</i>	<i>Actual 2011-12</i>	<i>Budgeted 2012-13</i>	<i>Projected 2013-14</i>	<i>\$ Change</i>	<i>% Change</i>
General Fund (*) (@)	14,476,012	14,542,517	14,291,669	(250,848)	1.7
Special Revenue Fund (#)	2,561,953	1,883,674	1,498,686	(384,988)	20.4
Capital Outlay Fund	217,333	218,500	218,460	(40)	0
Building Fund	1,551,789	1,535,962	1,561,650	25,688	1.67
Food Service Fund	1,298,824	1,619,500	1,583,000	(36,500)	2.25
Total All Funds	20,105,911	19,800,153	19,153,465	(646,688)	3.26

* "Actual" excludes state payments on-behalf of the school district, which are unbudgeted as per state instructions.

"Projected" Special Revenue Fund will be adjusted as Grants are verified by KDE.

Table B presents an overview of recommended changes in projected revenue in all funds (except Special Revenue) since the January review of projected receipts and expenses. Projected revenue in the Draft Budget was \$22,256,233. The Tentative Budget projection is up by \$1,812,270. The major differences are in the Special Revenue funds which are not budgeted during the Draft budget phase. The SEEK base used in this projection for 2013-14 was \$3,827 per ADA. More definitive funding amounts should be available by the time the Board considers the Working Budget in September.

Table B
Comparison - Projected Revenues – 2013-14 Draft & Tentative Budget

<i>Fund</i>	<i>Draft 2013-14</i>	<i>Projected 2013-14</i>	<i>Change Proj – Draft</i>
General Fund	18,859,213	19,209,707	350,494
Special Revenue Fund (#)	0	1,498,686	1,498,686
Capital Outlay Fund	218,460	218,460	0
Building Fund	1,559,060	1,561,650	2,590
Food Service Fund	1,619,500	1,583,000	(36,500)
Total All Funds	22,256,233	24,071,503	1,815,270

Due to uncertainty about Special Revenue funding, the district was not required to account for Special Revenue funds in the Draft Budget presented to the Board in January. This Tentative Budget **includes a low estimate of these federal, state and local funds due to continued uncertainty.**

EXPENSES

Some basic considerations for Kentucky local boards of education in determining expenditure allocations and how these concerns are addressed in this Tentative Budget are:

DEBT SERVICE

Does the proposed budget provide sufficient funds for debt service? Table C shows the district's required debt service payments and projected capital (restricted) revenues. The total scheduled 2013-14 debt service is \$1,160,591. This obligation is budgeted for payment from the Capital Outlay and Building Funds. Projected 2013-14 recurring revenue from the Capital Outlay and Building Funds is \$1,775,150 (*interest excluded*). The district has sufficient projected capital (restricted) funds to pay the scheduled debt service with an uncommitted balance of \$614,559.

Table C
Projected Bonded Debt Payment – 2013-14

	<i>Total Debt Service</i>	<i>Building Fund</i>	<i>Capital Outlay Fund</i>
Principal	\$797,295	\$797,295	\$0
Interest	\$363,296	\$363,296	\$0
Total	\$1,160,591	\$1,160,591	\$0
Projected Recurring Revenue	\$1,775,150	\$1,561,650	\$213,500
Uncommitted	\$614,559	\$401,059	\$213,500

OTHER OBLIGATIONS

Does the proposed budget provide for all known obligations for the fiscal budget year, such as salary improvements for additional experience or fringe benefits costs such as accumulated sick leave at retirement? The cost of advancing all personnel in all funds for an additional year of experience was included in the Draft Budget. The Tentative Budget includes all certified and classified positions allocated to school councils approved in February.

ALLOCATIONS TO COUNCILS

Has the board allocated sufficient funds to school councils to meet the staffing and other requirements of 702 KAR 3:245? The allocation approved by the board in February exceeded the minimum requirements of the state regulation on allocations to school councils. The salary schedule improvements enacted by the board are automatically incorporated into the allocation to school councils.

The Tentative Budget does not include any funding through Section 7 of the SBDM state regulation. The next adjustment to council allocations will be in September (if more or

less students enroll) and in October, at the end of the second school month (material, travel and supplies allocations will be adjusted based on the first two (2) months actual FTE-ADA).

The Tentative Budget does not include line item changes directed by school councils. All funds allocated for teaching supplies and materials are located in one (1) line item of the budget at each school. As funds are actually expended the expense is posted to the appropriate object code.

SALARY SCHEDULE IMPROVEMENTS

Salary schedule improvements for 2013-14 are included in the Tentative Budget. This budget reflects experience steps for certified and classified staff as well as a raise to the salary schedule. It is important to note that approximately 82% of the General Fund is dedicated to personnel expense.

A summary of personnel and benefits as a portion of the General Fund, excluding accumulated sick leave, for the last three (3) years is in Table D. The % projected increase in 2013-14 General Fund personnel salaries and benefits includes the cost of experience advancement. Actual 2011-2012 salaries does not include salaries paid by federal stimulus monies.

Table D
Summary of Projected Personnel Expense – 2013-14 Tentative Budget

	<i>Actual 2011-12</i>	<i>Budgeted 2012-13</i>	<i>Projected 2013-14</i>	<i>\$ Change</i>	<i>% Change</i>
Salaries GF Personnel	\$10,928,095	\$11,509,844	\$11,698,076	\$188,232	1.64%
Percent General Fund	78.5	77.7	74.56		
Benefits <i>excl. accum. sk. Lv. (*)</i>	\$747,410	\$802,328	\$1,102,199	\$299,871	37.38%
Percent General Fund	5.4	5.42	7.03		
Total Salaries & Benefits	\$11,675,505	\$12,312,172	\$12,800,275	\$488,104	3.96%
Percent General Fund	83.85	83.15	81.59		

* "Actual" excludes state payments on-behalf of the school district, which are unbudgeted as per state instructions.

SUMMARY OF GF PROJECTED EXPENSES

Proposed expenses as approved by the Board earlier this spring are detailed in the attached 2013-14 Tentative Budget. The totals for each fund are equal to the projected revenues plus the fund balance for each fund. Table E provides an overview of all proposed general fund expenses and changes made since the January review of projected expenses.

Projected certified and classified salary schedule improvements are also included in Table E. Appendix A (see page 9) contains brief descriptions of the object codes utilized in Table E.

Table E
Summary of Projected GF Expense – 2013-14 Tentative Budget

<i>Object</i>	<i>Description</i>	<i>Budget 2012-13</i>	<i>Draft 2013-14</i>	<i>Projected 2013-14</i>	<i>\$ Change</i>	<i>% Change</i>
0100	SALARIES PERSONNEL SERVICES	11,509,844	11,832,013	11,698,076	(133,937)	1.1
	<i>Percent of General Fund Expense</i>	77.7	78.3	74.6		
0200	EMPLOYEE BENEFITS (*)	802,328	854,666	1,102,199	247,533	28.9
	<i>Percent of General Fund Expense</i>	5.4	5.7	7.0		
0300	PURCHASED PROF & TECH SER.	191,019	198,019	198,019	0	0
	<i>Percent of General Fund Expense</i>	1.3	1.3	1.3		
0400	PURCHASED PROPERTY SERVICES	319,275	318,275	318,275	0	0
	<i>Percent of General Fund Expense</i>	2.2	2.1	2.0		
0500	OTHER PURCHASED SERVICES	252,217	251,717	251,717	0	0
	<i>Percent of General Fund Expense</i>	1.7	1.7	1.6		
0600	SUPPLIES & MATERIALS	1,434,912	1,366,261	1,360,066	(6,195)	.4
	<i>Percent of General Fund Expense</i>	9.7	9.0	8.7		
0700	PROPERTY	118,200	113,200	580,538	467,338	412.84
	<i>Percent of General Fund Expense</i>	.8	.7	3.7		
0800	MISCELLANEOUS	130,070	130,391	130,391	0	0
	<i>Percent of General Fund Expense</i>	.9	.9	.8		
0900	OTHER USES OF FUNDS	50,000	50,000	50,000	0	0
	<i>Percent of General Fund Expense</i>	.3	.3	.3		
	Subtotal for General Fund	14,807,865	15,114,542	15,689,281	574,739	3.8
0840	CONTINGENCY	4,915,038	3,745,262	3,520,426	(224,836)	
	<i>Percent of General Fund Expense</i>	33.2	24.8	22.4		
	Total for General Fund	19,722,903	18,859,213	19,209,707		

* "Actual" excludes state payments on-behalf of the school district, which are unbudgeted as per state instructions.

BUDGET RESERVE

Does the proposed budget include a sufficient reserve? A fundamental basis of budgeting is not to spend more than you receive. There are some years when the carry forward balance is above 5% that a local school board may decide to spend more than they receive, excluding the carry forward balance. KDE defines “total budget” as the budgeted expenditures in the General, Special Revenue, Capital Outlay, Building and Food Service funds excluding the Contingency. The budgeted reserve (Contingency) in the Tentative Budget has been determined accordingly.

The board must include a minimum reserve (Contingency) of at least 2% of the total budget (\$481,370). This budget includes an unrestricted General Fund reserve (Contingency) of \$3,520,425 (14.6% of the total budget). With the potential for a reduction in state funding due to continued lower revenue in the state’s FY2014 budget, an unrestricted General Fund reserve at this level is most prudent. The district had a reserve of \$4,915,038 at the beginning of 2012-13. The 2013-14 Tentative Budget includes an estimated General Fund carry forward balance of \$4,445,407. The actual carry forward will not be confirmed until the Annual Financial Report in late July; however, it is very possible that 2012-13 balance could be higher than projected.

Table F presents the district’s three (3) year comparison of general fund (GF) beginning and ending balances. The district spent \$550,909 less than revenue in 2011-12. The projection for 2012-13 is for expense to be \$265,348 higher than revenue. This budget contains a sufficient reserve to deal with expense \$1,394,613 higher than revenue. Further, it is possible that ADA for 2013-14 could be higher than 2,174 and there could be growth during the first 2 months of 2013-14. Prior year ADA above 2,174 and ADA growth in 2013-14 would result in higher SEEK revenue which would reduce the gap in expense and revenue in 2013-14.

Table F
Expense vs Revenue – 2013-14 Tentative Budget

	<i>Actual 2011-12</i>	<i>Budget 2012-13</i>	<i>Projected 2013-14</i>
GF Beginning Balance	4,629,477	5,180,386	4,915,038
GF Ending Balance	5,180,386	4,915,038	3,520,425
+/- Difference	550,909	(265,348)	(1,394,613)

RECOMMENDATION:

Approve the 2013-14 Tentative Budget as described in this enclosure.

APPENDIX A

EXPENSE TYPES:

Within each major function, specific types of expenses are grouped together. These groupings utilize the first two (2) digits of the object. For instance, salary-related object codes always begin with **01** (**0110**, **0120**, **0130**, etc.), so the “**01**” causes these expenses to be combined in the expense type grouping “**0100**.” The following summarizes the types of expenses grouped under the function:

0100 Salaries Personnel Services – salary-related expenses, such as wages, stipends, etc.

0200 Employee Benefits – fringe benefits, such as employee insurance, FICA match, Medicare match, CERS match, and KTRS match, when applicable

0300 Purchased Professional & Technical Services – contractual services, such as legal, consultants, audit, architectural, engineering, etc.

0400 Purchased Property Services – other services, such as repairs/maintenance, rent utilities, etc.

0500 Other Purchased Services – expenses such as travel, telephone, postage, advertising, insurance, printing, etc.

0600 Supplies & Materials – expenses such as general supplies, textbooks, reference materials, software, food, testing materials, etc.

0700 Property – furniture, fixtures, equipment, computers, buses, etc.

0800 Miscellaneous – fieldtrip expenses (other than the driver’s salary), registration, fees, permits, uniforms, etc.

0840 Contingency – used for budgeting purposes only as determined by the Board

0900 Other Uses of Funds – fund transfers and principal and interest payments on bonds