

CONCERN:

Consider the 2015-16 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 2015-16 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 2015-16 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 2015-16 staffing levels was 2,527 as discussed during the board's approval of the allocations to school councils in February. This budget is based on 2,276.4 projected final FTE-ADA for 2014-15 and a per pupil Seek value of \$3981. Elizabethtown's 2015-16 SEEK is expected to be calculated using the prior year FTE-ADA. If final ADA for 2014-15 is more than 2,276.4 SEEK revenue for 2015-16 will be higher than projected. If 2014-15 final ADA is lower than 2,276.4 then SEEK revenue in 2015-16 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 2015-16 is \$721,046,288.

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 2014-15 combined property tax rate was 72.5 cents per \$100 of assessed value for real estate and tangible property.

The 2015-16 Tentative Budget is based on a projected combined property tax rate of 72.5 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 \$5,305,900 is based on a careful review of expected revenues and planned expenses for the remainder of 2014-15.

SUMMARY OF PROJECTED REVENUES

Table A provides a summary of projected revenues, including beginning balances, in the 2015-16 Tentative Budget.

Table A
Summary of Projected Revenues – 2015-16 Tentative Budget

<i>Fund</i>	<i>Actual 2012-13</i>	<i>Budgeted 2014-15</i>	<i>Projected 2015-16</i>	<i>\$ Change</i>	<i>% Change</i>
General Fund (*) (@)	20,592,343	21,542,463	21,483,077	-59,386	-.3
Special Revenue Fund (#)	1,895,659	2,120,037	1,588,932	-531,105	-25.1
Capital Outlay Fund	231,902	233,346	230,640	-2,706	-1.2
Building Fund	1,642,070	1,718,575	1,710,024	-8,551	-.5
Food Service Fund	1,403,849	1,641,500	1,690,800	49,300	3
Total All Funds	25,765,824	27,255,921	26,703,473	-552,448	-2

* "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 \$24,325,278. The Tentative Budget projection is increased by \$2,378,197. The major differences are in the Special Revenue funds which are not budgeted during the Draft budget phase, as well a higher beginning balance and increase in seek funding. The SEEK base used in this projection for 2015-16 was \$3,981 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 – 2015-16 Draft & Tentative Budget

<i>Fund</i>	<i>Draft 2015-16</i>	<i>Projected 2015-16</i>	<i>Change Proj – Draft</i>
General Fund	20,831,477	21,483,077	651,600
Special Revenue Fund (#)	0	1,588,931	158,893
Capital Outlay Fund	226,877	230,640	3,763
Building Fund	1,683,924	1,710,024	26,100
Food Service Fund	1,583,000	1,690,800	107,800
Total All Funds	24,325,278	26,703,473	2,378,197

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 2015-16 debt service is \$1,361,378. This obligation is budgeted for payment from the Capital Outlay and Building Funds. Projected 2015-16 recurring revenue from the Capital Outlay and Building Funds is \$1,940,664. The district has sufficient projected capital (restricted) funds to pay the scheduled debt service with an uncommitted balance of \$579,286.

Table C
Projected Bonded Debt Payment – 2015-16

	<i>Total Debt Service</i>	<i>Building Fund</i>	<i>Capital Outlay Fund</i>
Principal	986,280	986,280	0
Interest	375,098	375,098	0
Total	1,361,378	1,361,378	0
Projected Recurring Revenue	1,940,664	1,710,024	230,640
Uncommitted	579,286	348,646	230,640

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 as well as the mandated 2% increase to the salary schedule.

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 2015-16 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 83.46% of the General Fund spending 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 2.5% projected increase in 2015-16 General Fund personnel salaries and benefits includes the cost of experience advancement, mandated 2% raise and an increase in the cost of KTRS and CERS paid by the Board.

Table D
Summary of Projected Personnel Expense – 2015-16 Tentative Budget

	<i>Actual 2013-14</i>	<i>Budgeted 2014-15</i>	<i>Projected 2015-16</i>	<i>\$ Change</i>	<i>% Change</i>
Salaries GF Personnel	11,757,408	12,295,927	12,601,107	305,180	2.48
Percent General Fund	77.68	75.88	76.98		
Benefits <i>excl. accum. sk. Lv. (*)</i>	970,216	1,033,386	1,061,200	27,714	2.68
Percent General Fund	6.41	6.38	6.48		
Total Salaries & Benefits	12,727,624	13,329,313	13,662,307	332,894	2.5
Percent General Fund	84.07	82.26	83.46		

* "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 2015-16 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 – 2015-16 Tentative Budget

<i>Object</i>	<i>Description</i>	<i>Budget 2014-15</i>	<i>Draft 2015-16</i>	<i>Projected 2015-16</i>	<i>\$ Change</i>	<i>% Change</i>
0100	SALARIES PERSONNEL SERVICES	12,295,927	12,579,617	12,601,107	21,490	.01
	<i>Percent of General Fund Expense</i>	75.9	76.4	77.0		
0200	EMPLOYEE BENEFITS (*)	1,033,486	1,038,286	1,061,200	22,914	2.2
	<i>Percent of General Fund Expense</i>	6.4	6.3	6.5		
0300	PURCHASED PROF & TECH SER.	172,631	172,131	166,716	-5,415	-3.1
	<i>Percent of General Fund Expense</i>	1.1	1.0	1.0		
0400	PURCHASED PROPERTY SERVICES	333,525	333,525	377,665	44,140	13.2
	<i>Percent of General Fund Expense</i>	2.1	2.0	2.3		
0500	OTHER PURCHASED SERVICES	278,759	304,630	293,291	-11,339	-3.7
	<i>Percent of General Fund Expense</i>	1.7	1.8	1.8		
0600	SUPPLIES & MATERIALS	1,348,812	1,473,717	1,450,573	-23,144	-1.6
	<i>Percent of General Fund Expense</i>	8.3	8.9	8.9		
0700	PROPERTY	429,000	399,000	245,000	-154,000	-38.6
	<i>Percent of General Fund Expense</i>	2.6	2.4	1.5		
0800	MISCELLANEOUS	261,497	124,184	124,100	-84	0
	<i>Percent of General Fund Expense</i>	1.6	.8	.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	16,203,637	16,475,090	16,369,651	-105,439	.6
0840	CONTINGENCY	5,338,826	4,356,387	5,113,425	757,038	17.4
	<i>Percent of General Fund Expense</i>	32.9	26.4	31.2		
	Total for General Fund	21,542,463	20,831,477	21,483,077	651,600	3.1

* "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 (\$534,069). This budget includes an unrestricted General Fund reserve (Contingency) of \$5,113,424 (19.1% of the total budget). With the potential for a reduction in state funding due to continued lower revenue in the state’s FY2016 budget, an unrestricted General Fund reserve at this level is most prudent. The district had a reserve of \$5,492,757 at the beginning of 2014-15. The 2015-16 Tentative Budget includes an estimated General Fund carry forward balance of \$5,305,900. The actual carry forward will not be confirmed until the Annual Financial Report in late July; however, it is very possible that 2014-15 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 \$272,254 less than revenue in 2013-14. The projection for 2015-16 is for expense to be \$192,475 higher than revenue. This budget contains a sufficient reserve to deal with expense \$192,475 higher than revenue. Further, it is possible that EOY ADA for 2014-15 could be higher than 2276.4 and there could be growth during the first 2 months of 2015-16. Prior year ADA above 2,276.4 and ADA growth in 2015-16 would result in higher SEEK revenue which would reduce the gap in expense and revenue in 2015-16.

Table F
Expense vs Revenue – 2015-16 Tentative Budget

	<i>Actual</i> <i>2013-14</i>	<i>Budget</i> <i>2014-15</i>	<i>Projected</i> <i>2015-16</i>
GF Beginning Balance	5,220,503	5,492,757	5,305,900
GF Ending Balance	5,492,757	5,338,826	5,113,425
+/- Difference	272,254	-153,931	-192,475

RECOMMENDATION:

Approve the 2015-16 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