

CONSIDERATION:

Public Discussion of Projected Receipts and Expenses - Draft Budget for 2016-17

DISCUSSION:

State law (KRS 160.470 (6)(a) requires that every local board of education receive a Draft Budget before January 31, 2016 for the upcoming school year. The law's purpose is to assure that the board has sufficient information about projected receipts and expenditures for all funds in the entire budget as allocations for individual budget components are considered. Table A contains an overview of the chronology for 2016-17 budget decisions.

Table A
Kentucky Budget Development Chronology
Fiscal Year Beginning July 1, 2016

Activity	Approximate Time
2016-17 Enrollment/ADA Projection	Reported to Board – December 2015
2016-17 Local/State Revenue Projections	Included in this enclosure
Projected Equipment/Capital Needs	Included in this enclosure
Mandated Personnel Expense	Included in this enclosure
Local School Board Reviews School Allocations	Preliminary Information in this enclosure
Draft Budget Reviewed by Local Board – (KRS 160.470)	By January 31, 2016
Local School Board Approves School Allocations	Complete by March 1, 2016
2016-17 School Budget Development – School Councils Advise Superintendent/Board of Staff Levels	Complete by March 31, 2016
Notice of Re-employment of Certified Staff – Next School Year	No Later than April 30, 2016
Needs Assessment	From Improvement Plans in May
Staff Positions and Salary Levels	May Tentative Budget or later
Board Adopts 2016-17 Tentative Budget with 2% Reserve of Total Budget	By May 31, 2016
Formal Budget Action: 2016-17 Tax Levy	Within 30 days of receipt of certified assessment
Formal Budget Action: Adopts 2016-17 Working Budget	By September 30, 2016

REVENUE PROJECTIONS

Enrollment and Average Daily Attendance: The most important information to project local and state revenue is the number of pupils expected. Most state funds to local school districts are calculated from the full time equivalent (FTE) average daily attendance (ADA). Each kindergarten student is counted as one-half FTE for projection of SEEK revenue.

Even though state revenue through SEEK is based on ADA, staffing needs for schools are based on the number of students enrolled or average daily membership (ADM). The Elizabethtown Independent Schools expect to have 2 less students in overall enrollment compared to 2015-16.

Table B
Projected Enrollment - Elizabethtown Independent Schools
End of Second School Month

School	Actual 2012-13	Actual 2013-14	Actual 2014-15	Actual 2015-16	Projected 2016-17	Change 1 year
Panther Academy	191	194	175	153	152	-1
Helmwood	404	407	457	438	427	-11
Morningside	476	519	512	492	479	-13
All Elementary	1071	1120	1144	1083	1058	-25
TK Stone MS	552	586	574	526	542	16
Etown HS	791	762	822	769	777	8
Homebound/GDC/VV	15	34	29	31	30	-1
All K-12	2429	2502	2569	2409	2407	-2

Assessment of Taxable Property: Local/State revenue projections for 2016-17 are based on the projected number of pupils in ADA and a projection of assessed value of property subject to school taxation at the 2015-16 tax rate. The state SEEK funding program was designed to equalize funding based on the assessed value of taxable property per pupil.

To project state and local revenue the estimated assessed value is divided by the projected number of students to yield the estimated assessed value per pupil. The most critical data is the projected number of pupils in ADA. If assessed value is higher than projected, state SEEK funding will be lower than projected but local revenue will be higher. Projected assessed value of property subject to school taxes for the Elizabethtown Independent Schools for 2016-17 remains the same as 2015-16 actual for this projection.

PROJECTED REVENUE – GENERAL FUND

Overall General Fund Receipts: General Fund revenue is expected to be \$20,823,903 in 2016-17, including the beginning balance. This is a decrease of \$893,619 or 4.0% compared to 2015-16. Projected General Fund receipts from Seek funds are projected to be slightly lower based on anticipated 15-16 ADA. All other revenue is budgeted at 15-16 levels.

Beginning General Fund Balance: The unreserved General Fund beginning balance in 2016-17 is expected to be at least \$5,092,904. This estimate of the 2016-17 beginning General Fund balance is based on the assumption that all of the funds budgeted in 2015-16 for revenue would be received and expenses including accumulated sick leave at retirement would be spent.

The projected carry forward balance is \$260,341 lower than the prior year. However, if revenues for 2015-16 are higher than projected or if all allocated expenses are not made, a higher carry forward beginning General Fund balance may be expected for 2016-17.

PROJECTED REVENUE - OTHER FUNDS

Special Revenue Fund: The Draft Budget does not include any funding levels of any state or federal categorical programs. As notice of 2016-17 state and federal funding is provided, these

amounts will be inserted into the 2016-17 budget as the board makes subsequent reviews. Hopefully, by the May Tentative Budget considerable more information will be available about special revenue funding.

Capital Funds: SEEK Capital Outlay revenue is projected to decrease \$9,753 in 2016-17. Projected local revenue to the Building Fund shows no change in revenue. State revenue to the Building Fund is expected increase. The General Assembly is charged by state law to set the equalization at 150% of the state average assessment per pupil for each biennium. The state equalization level for the 2014-16 biennium is \$749,000. The equalization level for 2017-18 has not been set.

EXPENSE PROJECTIONS

Obligations

The Draft Budget must provide for all obligations of the Board. The Elizabethtown Independent Schools have two (2) major obligations for priority consideration in the 2016-17 budget.

Debt Service: First, debt service on bond issues must be funded. The Elizabethtown School District's scheduled debt service for 2016-17 is \$1,424,211. This obligation is budgeted for payment from the Debt Service Fund, however, the source of payment will be transferred from the Building and Capital Outlay Funds.

The Elizabethtown Independent Schools will have sufficient capability from the Building and Capital Outlay Funds to pay scheduled 2016-17 debt service. Projected 2016-17 revenue in the Building and Capital Outlay funds is projected to be \$1,922,911 not counting any beginning balances in these funds.

Personnel Expense: Second, the cost for salaries and benefits will increase due to experience increments in current salary schedules. The Draft Budget includes the cost of each staff member advancing one year in experience on current salary schedules. Substitutes and any salaries without experience increments are excluded.

The estimated cost of these salary improvements (including benefits) is \$98,789 or about an 8% increase above the current expense for salaries and benefits. This projection allocates personnel expense at 82.41% of the total General Fund Budget.

In addition, the Draft Budget provides a set aside of \$100,000 to pay accumulated benefits at the time of retirement for all eligible staff members. It is very unlikely that all eligible staff members will choose to retire at the same time, however, this amount will be reviewed upon receipt of staff intent forms for 2016-17 school year.

Staffing Allocation and School Equity

The Board is to approve allocations to school councils by March 1, 2016. The allocation is to provide sufficient funds to staff each school and provide for teaching materials, supplies, travel, and equipment. The projected 2016-17 staffing allocation provides for full-day kindergarten at Panther Academy. Elizabethtown's staffing is above the minimum number of staff members needed to meet the maximum class size standard. Local district revenue is the primary source of funding staffing above the minimum level.

Current staffing levels are based on a consistent standard that assures fair treatment for all schools. Fair treatment means that pupil-teacher ratios are similar for schools that serve similar grades or levels. Further, the level of staffing beyond the minimum required is dictated by available revenue. The Board will consider staffing levels for 2016-17 in the school allocations at a February Board meeting. Equitable staffing among the schools should be an important part of this consideration.

There are two other components of the school allocation process. First, the allocation for teaching supplies, materials, and instructional travel based on the state regulation requiring a per-pupil allocation of at least 3.5% of the base SEEK for each FTE pupil in ADA. This provision in the budget language has been waived in previous budget cycles. This Draft Budget provides the minimum allocation for this section at \$139.34 per ADA.

Second, the Board may allocate any additional funds to schools to address unmet needs. If there are differences in student learning needs from school to school the Board may allocate additional funds based on the differences. For example, if one school has a unique need, the Board may allocate additional funds to that school only. Any discretionary funds the Board may decide to allocate to schools should be placed in this component of the allocation.

Equipment and capital needs are normally found in the maintenance series of the General Fund budget and the Capital Outlay and Building funds. Unmet facility needs are found in the district facility plan. The Capital Funds budgets provide for the cost of scheduled debt service. Funds received above the amount needed for debt service are held in reserve for new facility construction or and/or renovation projects.

Summary of Projected Expense: An increase of \$124,232 is projected for expense from all funds except special revenue during 2016-17. This does not include funds held in contingency as a reserve for unknown or future needs.

Table D presents a summary of projected General Fund expense by object (code). Appendix A contains brief descriptions of the object codes utilized.

Table D
Projected General Fund Expense by Object Code

GENERAL FUND PROJECTED EXPENSES		Actual 2014-15	Budget 2015-16	Projected 2016-17	\$ Change	% Change
0100	SALARIES PERSONNEL SERVICES	11,999,792	12,535,739	12,631,528	98,789	.8%
0200	EMPLOYEE BENEFITS (*)	1,032,689	1,061,200	1,170,382	109,182	10.3%
0300	PURCHASED PROFESSIONAL & TECHNICAL SERVICES	143,496	167,916	167,916	0	0
0400	PURCHASED PROPERTY SERVICES	390,549	381,165	381,165	0	0
0500	OTHER PURCHASED SERVICES	294,530	299,291	300,291	1,000	.3%
0600	SUPPLIES & MATERIALS	1,257,834	1,450,573	1,450,573	0	0
0700	PROPERTY	426,091	319,714	219,714	(100,000)	-31.3%
0800	MISCELLANEOUS	187,160	361,993	377,253	15,261	4.2%
0900	OTHER USES OF FUNDS	53,733	50,000	50,000	0	0
Subtotal for General Fund (*)		15,785,874	16,624,618	16,748,850	124,232	.07%
0840	CONTINGENCY		5,092,905	4,158,053	(934,851)	(18.4%)
<i>Percent of General Fund Expense</i>						
Total for General Fund (*)		15,785,874	21,717,523	20,906,903	(810,620)	(3.7%)

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

Budget Reserve: 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 Draft Budget has been determined accordingly.

A local school district budget must include a reserve of at least 2.0% of the total budget. The attached summary of General Fund expenditures includes a projected unrestricted reserve of \$4,158,053 of the total budget.

The projected reserve exceeds the minimum 2.0% requirement of \$530,767. The projected unrestricted reserve is 15.7% of the amount projected for all funds. The desired level of reserve

for the budget after approval of all expenses, including salary improvements, is approximately eight percent (8.0%) of the total budget.

It is important to remember that the purpose of an adequate reserve is to provide a “buffer” to minimize the disruption of instructional programs deemed critical by the Board during times of negative shifts in state revenue.

The Board is strongly urged to develop a strategy that would use both the unrestricted reserve and General Fund Escrow in conjunction with reduction of expenses during the next two (2) years to offset any reduction in state funding for SEEK General Fund instructional programs. It is imperative that if reduced revenue for Special Revenue programs happen that comparable reductions in expense for these programs occur.

This Draft Budget includes higher projected expense than projected revenue. During the next two (2) fiscal years, it is important for the Board to maintain as much as possible a pattern of General Fund expenditures that are not more than General Fund receipts, excluding the budget reserve. However, given what little is known about SEEK funding for the next two (2) years, this may prove difficult to achieve.

Expenses in all other funds are projected to be equal to projected receipts. The major part of the higher expense projected for 2016-17 is increased personnel costs. The other important factor is the cost of continuing Board initiated programs

If SEEK revenue is subsequently higher than projected in this narrative, the Board should not increase expense. The top priority should be to use the additional revenue to reduce any gap between recurring revenue and expense.

RECOMMENDATION:

Take this information under advisement and approve a motion that the Board has reviewed projected revenue and expense for 2016-17 pursuant to KRS 160.470. Action on the school allocations should be taken at a regular meeting in February 2016.

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