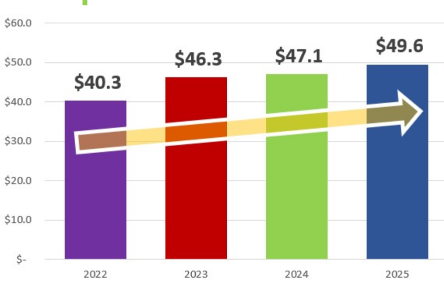
Notes & Analysis

October 2024 Financial Report

October brings a month of student learning as school follows a steady pattern. During this period, Finance is working hard to ensure that the year end audit goes smoothly and our financial statements are accurate while simultaneously beginning to prepare our next year's budget. This is also the period in which we close out older federal grants, including COVID-19 stimulus grants that were not granted an additional extension period.

State SEEK revenues continue to decrease as increases from the Kentucky legislature do not match the rate of property tax assessment growth. While assessment growth is is generally good, SEEK decreases based on the same assessment growth, and local property taxes are limited to 4%, resulting in General Fund revenues often being forced to lag behind inflation.

Occupational taxes have continued a strong trajectory at historically-high levels. This is the revenue category that most closely reflects our local economy. While forecasts have suggested the economy will weaken, meaning that wages will decrease, unemployment will increase, or business profits will decrease, the trend we have seen doesn't align with economic forecasts, so we are watching this very closely. The longer the Louisville economy stays strong, the better life is for our community.



Interest income will be decreasing this year as the Federal Reserve has decreased interest rates by a half percentage point effective September 18, 2024. Through October, interest income was on schedule to match our budgeted estimates for the year, though the Federal Reserve cut interest rates in November and December by a quarter percent each. There has been some conflicting economic data as some data points to a soft landing while other data indicate a need for slowing the economy to stem inflation. The United States economy has experienced an average inflation rate of around 2.5% (annualized) from the spring 2024 through October 2024, which is not much above the Federal Reserve's target inflation rate of 2%. While this does not signify excessive inflation rates, the economy has not recovered from the high post COVID inflation period that significantly degraded many Americans' buying power. We are continuing to watch the Federal Reserve's monetary policy to apply it to our budget projections.

Budget to actual analysis generally is less effective this early in the year, but we can see a number of trends emerging from our analysis.

- While we are watching many our revenue categories to determine any effect they may have on this year's finances and next year's budget, all codes are within our budgetary estimates at this time.
- The vast majority of our expense codes are tracking within each code's established budget.
- Numerous codes have seen significant budget increases over their traditional levels, largely to support student transportation or District-wide curriculum implementation. These codes are within budget as well.
- Insurance as a category is increasing faster than the US inflation rate. Our increase mirrors national trends of premium increases and judgments in trial cases. Although this category is increasing quickly, we are still within our budget for the year.

General Fund cash flows reach their lowest level each October. With a high dependence on local property tax revenues and that collection period not beginning until early November each year, the General Fund fund balance as of October 31 is a bellwether of our financial health. While the COVID stimulus grants caused our fund balance to increase to historic highs, we are now seeing it decrease toward more normal levels.

Budget status update marks our achievement of the budget reductions necessary to balance the budget, as we also mentioned in the Draft Budget for the 2025-26 school year. This was no easy task, as we needed a net $100 million of cuts to ensure a soft landing from the ESSER funding cliff. After extremely fruitful collaboration among the Superintendent and Cabinet, we have right-sized the budget while protecting effective programs for students and continuing to work on priorities like staffing vacancies. After completing this important task, we will require any budget increases to be matched with budget cuts for any new programs the remainder of this year.