

## BUDGET STATUS REPORT

Preliminary work has begun on the 2016-17 budget. If the board wishes to provide input and guidance concerning the following areas that is different than the information presented, it is requested that the board indicate the changes it wishes so that the budget can be developed in accordance with the desires of the board.

### **Administration of the Budget.**

Unless the board has another suggestion for effective administration of the budget, the board will be expected to restrict its action with respect to the budget to providing broad overview and guidance of budget priorities, monthly approval of expenditures and transfers, and establishment of a maximum mill levy or budget limit for any budget which may have a levy established by the board. Monthly board approval of bills and transfers will continue as required by Kansas Statute. The superintendent will be responsible for verifying the need and accuracy of all expenditures brought before the board for approval with the exception of board member expenses. Vouchers submitted by board members will be placed before the board for payment without comment or question. If any such voucher is to be questioned, the question will be initiated by the board.

### ***Personal Note:***

It is my hope that the board will be comfortable with the knowledge that the superintendent administers the budget. I do not get excited when an individual line item is under spent or overspent; rather, I believe the purpose of a budget is to provide reasonable estimates and utilize knowledge of actual expenditures to provide a better estimate for the future. My guarantee to the board is that the total budget limits will be maintained in accordance with statute and my hope is that the board will allow the flexibility of over or under spending individual lines in the budget so as to provide an accurate picture of how the funds were actually expended. Related to this, the board is not expected to question the administrative decision of which line item to place an expenditure. With over 2,000 different lines in our budgets, many expenditures could be placed in a variety of different lines.

### **Establishing Budget Limits.**

The development of the budget is most likely to occur in similar fashion as in the past. Currently, the state has not released the budget software, nor have they had a budget workshop. Normally, we would have had both around the middle of June. I will be attending a budget workshop on Wednesday, June 20<sup>th</sup>.

Two years ago, the legislature developed a funding system called the Block Grant. Basically, the state took a snapshot of our all of our funds for the 2014-15 school year and said you will get the same amount for the next two years. Within these two years, the state will develop a new formula to fund schools.

We did receive notification from the state department that USD 378 will see a decrease of \$65,992 in state aid for Supplemental General Fund/Local Option Budget (LOB) or approximately 1.500 mills. However, we benefitted from the courts decision to provide more of the mandated funding to districts in the area of Capital Outlay to the tune of \$46,030. This addition helps decrease the local tax burden. It is not new money.

In the end, we will use whatever tool they give us as it is mandated by the state. I anticipate we may see our total mill levy increase because of the reduction in the LOB aid they put on us. The last three years we have asked our patrons to fund the school at an average rate of 50 total mills with 20 of those mills from the state.

**Impact of Valuation on the Budget.** Under the current funding formula for the General Fund, all school districts are required to levy 20.000 mills. IF that levy exceeds the allowable expenditures for the fund as established by the Legislative funding formula, the excess collection must be forfeited to the state at the end of the fiscal year. During the very late hours of the 2015 Legislative session the legislators decided to keep the 20.000 mills instead of sending it to the districts like in the past. Each district will have to request the funds each month from the state. It is of great concern that the funds will actually be there in light of the state revenues challenges.

Below, the board can see a history of the district's valuation:

2009-10: \$30,675,155  
2010-11: \$31,876,653  
2011-12: \$32,711,189  
2012-13: \$34,436,885  
2013-14: \$36,245,930  
2014-15: \$38,504,675  
2015-16: \$39,688,992

Our estimated general fund valuation will be \$44,968,381 for the 2016-17 school year. The final valuation will not be released until November.

As board members are aware, the mill levy, valuation and taxes raised are controlled by the simple formula of:

$$\text{Taxes raised} = \text{Mill Levy} \times \text{Valuation}$$

**General Fund Budget.** As stated earlier, the levy for the General Fund is established by the Legislature. In 2016-17 it will remain at 20.000 mills. Unless the board indicates otherwise, the General Fund budget will be developed to fully utilize the budget authority granted to the school district by the state. Since the General Fund mill levy is established by the Legislature, it will be the same regardless of whether the full budget is utilized or not. There is no advantage to the students of our school district not to accept the maximum budget allowed by the state. The impact of the increased valuation will not affect the General Fund budget.

**Supplemental General Fund/Local Option Budget (LOB).** When the finance plan of 1992 was enacted, the Legislature created a provision for districts to supplement their General Fund expenditures through the creation of a "local option budget" (LOB). As originally enacted, this budget was capped at 25 percent of the General Fund; in other words, if a district had a \$5,000,000 General Fund budget, the maximum LOB could be \$1,250,000. As indicated originally by the Legislature, the plan was to 'phase out' the local option budget as the Legislature increased the funding for the General Fund.

However, the Legislature did not increase funding for schools in the years following 1992 at a level that matched inflation, nor did it financially provide for increased state and federal mandates.

Instead of phasing out the local option budget, more and more schools began to rely upon it to meet the funding requirements of schools. As many schools approached and reached the 25 percent spending cap, the Legislative response in 2006-07 was to raise that cap to 30 percent. In 2014, the legislature gave districts the opportunity to increase the levy by 1% to a total of 31%. However, it is subject to a vote by the patrons.

In 2008-09, the USD 378 board approved a local option budget that was 30 percent of the General Fund. Unless the board indicates otherwise, a 30 percent local option budget will be planned for 2016-17. Maintaining this level is necessary to continue to fund the staff and programs already in place in the district. While our budget per pupil decreased twice for 2010-11, we do expect continued flat trend of enrollment which will impact the amount we are allowed to retain in the General Fund. As a result, a portion of the salary increase authorized by the board, as well as increasing costs of utilities, technology, fuels (propane, etc), daycare, and some miscellaneous will need to come from the local option budget.

Last year our 30 percent local option budget had a levy of 16.522 mills. While the 2016-17 levy cannot yet be determined, the decrease in state aid and increases in operating expenses (utilities and staffing) appears to deem an increase.

**Capital Outlay Budget.** The board is aware that the cash reserves we have had in the Capital Outlay Fund have been expended for a variety of capital improvement projects. The actual ending balance on June 30 was \$610,007 (summer repairs still underway, funds have been set aside to pay for them). While the board might look at the above amount and question the need to levy additional funds given that balance, board members are asked to recognize that the list of capital projects more than exceeds the balance. The first half of the 2016-17 tax collection will be received in January and the second half in June of next year. It is because we don't realize the revenue in the fund until midway and at the end of the current year that we need to have at least a year's worth of revenue in the fund as carryover. Unless directed otherwise, I will plan on building the budget off the current mill levy of 8.000 mills.

For 2016-17, all 8.000 mills need to be used to repair and replace the district's roofs (\$100,000 new roof and \$92,000 preventive maintenance), weight/wrestling room facility payment (\$123,523), and a few miscellaneous needs (\$44,224). The eight mills will generate approximately \$359,747 (8 x \$44,000 approx). The weight/wrestling facility is scheduled to be paid off March 1, 2019.

Moving forward, I would recommend the board continue to be visionary in its approach to address needs throughout the district. One way we can create this vision is to develop a 3-5 year capital outlay plan. This plan would give the staff and patrons the necessary direction of where we are headed in the district.

**Bond and Interest.** The district has one general obligation bond. The bond allowed the district to build a new vocational shop, upgrades to the track facility, and installed fiber optic cable at the high campus. The bond was for \$2,185,000. Currently, the district has an outstanding balance of \$943,553.75. The bond is scheduled to be paid off March 1, 2019. The district needs to collect approximately 4.079 mills to pay for the interest and principal amounts this year.

**SUMMARY:**

In order that the budget is developed in accordance with board wishes, the following recommendations are summarized below. The board may recall that I have only been in the district four days at the printing of this packet. Therefore, I developed this recommendation based off your history and informal dialogue with several helpful staff members. Secondly, I need to have it ready for review by KSDE officials by the third week in July (see timeline attachment-budget development). Lastly, we have not received the budget software or training until later this month. Our timeline is very tight this year to turn all the reports around.