

CLAT Presentation

January 08, 2022
Virtual Presentation

School Finance



Think. Learn. **Grow.**

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Agenda

- School Budget Basics
- General Fund Basics
- Spending Authority & Solvency
- Expenditures
- Non-General Fund Funds
- SSA and DMPS
- Final Items

PART I

School Budget Basics

Restricted Budget

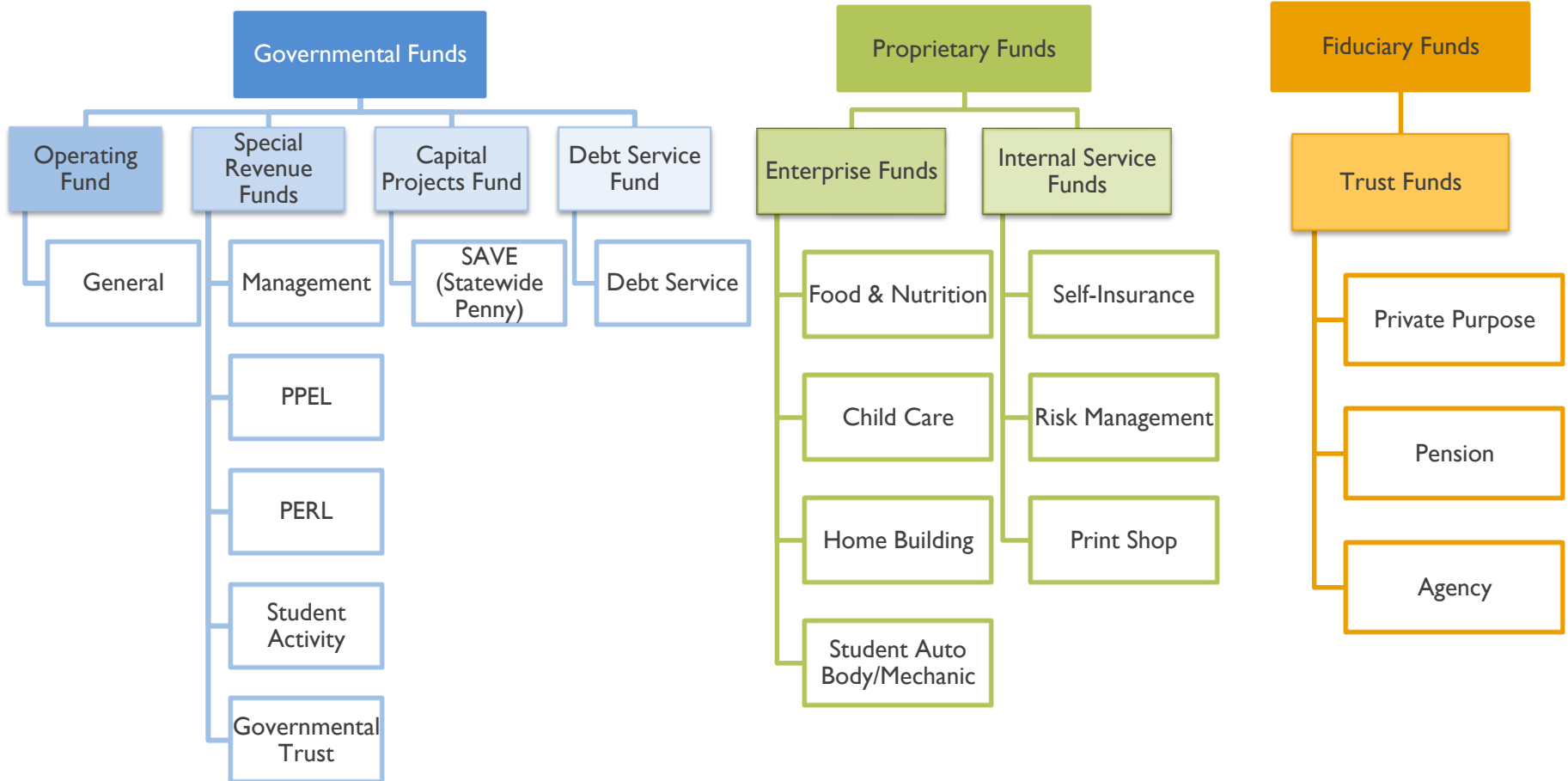
School districts have restricted funding sources

- Not all funds can be spent on anything the district decides

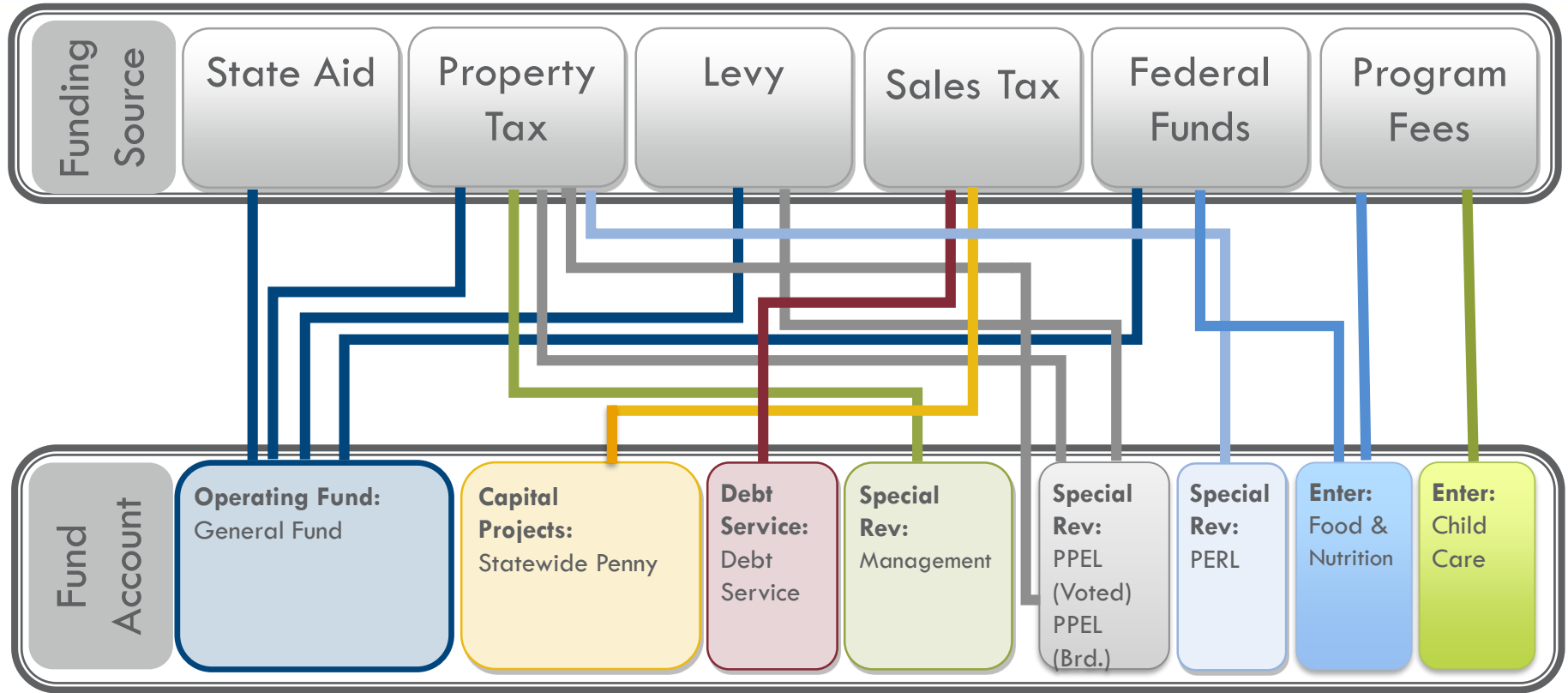
State & Federal law dictate *allowable expenditures* ... even for General Fund dollars

- Administrative Rules can further clarify/restrict State law

Fund Accounting: DMPS Fund Structure



Putting it All Together: Revenue, Fund Accounts, & Restricted Uses



PART 2

General Fund Basics

General Fund: Basic Principles



Budget *is student driven*

Funding amount per student, set by legislature (Supplemental State Aid)



Schools are *budget limited*, not tax rate limited

Doubling property value does NOT equate to higher cost per pupil



Tax rate is driven by **formula** more than district actions and doesn't impact Spending Authority



District can only spend funds on allowable purposes



Two Key Financial Measures: Spending Authority & Solvency

Why We Focus on the General Fund

- Largest source of Revenue & Expenditures

Fund	% of Annual Revenue	% of Annual Expenses
General Fund	78%	76%
Special Revenue	7%	6%
Capital Project	6%	9%
Debt Service	4%	4%
Enterprise Funds	5%	5%

- Pays for Educational Programs
- Biggest Risk

General Fund Key Measures

Unspent Budget Authority (Spending Authority)

- By far the most important measure
- Focus is on **SPENDING AUTHORITY** not Fund Balance
 - Negative Spending Authority is illegal, and can cause a district to close
 - Negative Fund Balance can be solved locally
- Look at the trend
- Usually measured on a percentage basis (Spending Authority Ratio)
- Influence by reducing (or shifting) expenditures (not Special Ed)

Solvency Ratio

- Fund Balance (cash) expressed on a percentage **basis**
- Look at the trend
- Influence by reducing (or increasing) expenditures, increasing Cash Reserve Levy

Other Key Indicators

- Salary + Benefits costs
 - As a percent of GF expenditures
 - Class size
 - Staffing Ratios
- Other expenditures – one time vs. ongoing (e.g., curriculum vs. electricity)

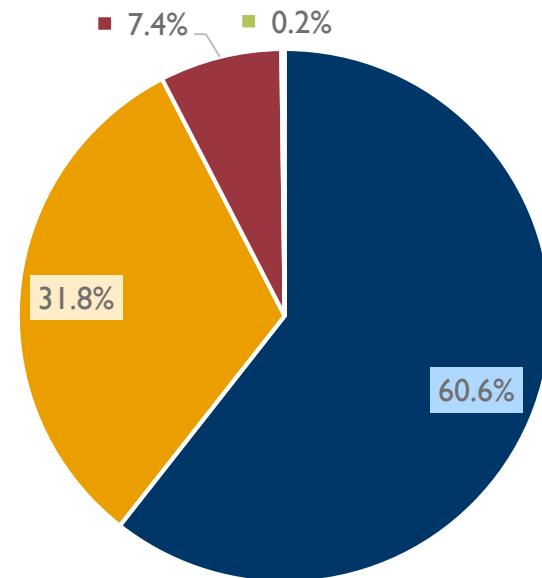
General Fund Sources of Revenue (FY21 Budget)

Sources of Revenue

- State Aid
- Local (Property Tax Levies)
- Other
- Federal Funds

GENERAL FUND REVENUE SOURCES (FY 21 BUDGET)

■ State ■ Local ■ Federal ■ Other



PART 3

Spending Authority & Solvency

General Fund: Spending Authority

State controls maximum amount each district can spend.

- It is **illegal** for a school district to exceed its total Spending Authority
- Why? Equal between districts. Every child in Iowa should receive same amount of funding, no matter where they live

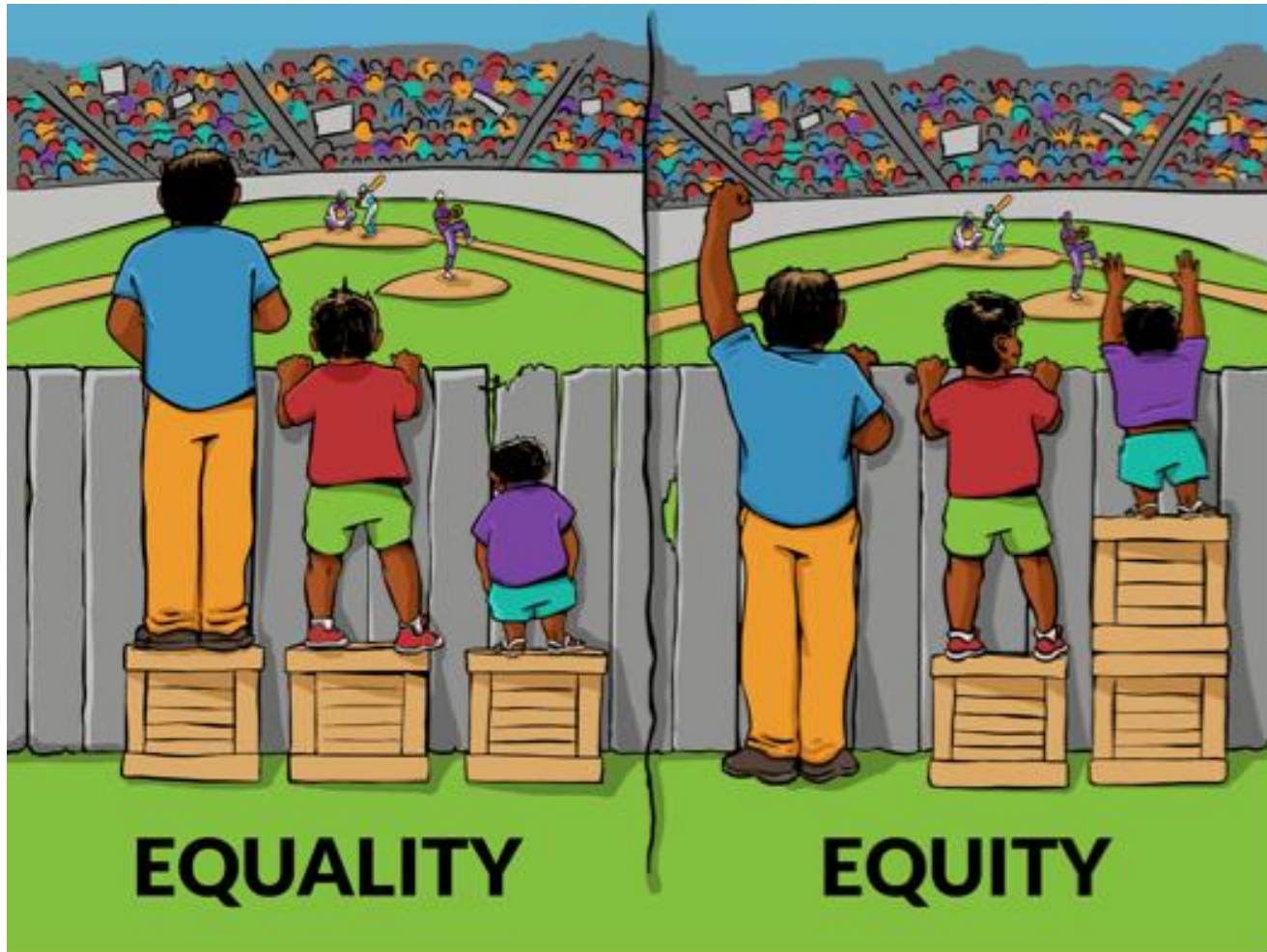
Limit on spending is the amount of **Spending Authority** a district has.

- Amount of cash or fund balance not considered

Spending Authority is directly tied to student enrollment.

- Cost Per Pupil: Fixed dollar amount set by the State that will be funded (through both State *and* local sources) for every student

Equal versus Equitable



Example

- At-Risk/Drop Out Prevention
 - Additional levy available to each school district based on student population.
 - In effect creates inequity, rather than levelling the playing field.
 - Total enrollment determines amount, not At-Risk characteristics

General Fund: Spending Authority

Spending Authority restriction only applies to the General Fund

- For all other funds, if you have the cash, you can spend it

District must account for two things in the General Fund

- Fund Balance (cash)
- Spending Authority (state limit on spending)

Total Spending Authority in a Year

Calculating Spending Authority - Simplified

	Current Year Spending Authority
+	Previous Year Surplus Spending Authority
=	Total Spending Authority

Where Does Spending Authority Come From?

Basic Formula

	Number of Students
x	Cost per Pupil
=	Total current year Spending Authority

Important Notes:

- Student count is a year behind
 - Always use prior year count
 - Thus, the October count for this year is the used for next year's budget
- Cost per child is set by the Iowa Legislature by setting State Supplementary Assistance Rate
- Spending Authority is then funded by a combination of: **Property Taxes** and **State Aid**

Student-Driven Funding Formula



Regular Programs = per student



Categorical funding for certain General Fund programs = mostly per student



Certain Programs =
Weighting of students

Based on cost of educating the student
Weightings add students to the number that is multiplied by the per pupil spending authority

Weighting

Regular Ed = 1.0

All weightings are additional to the 1.0 for regular ed

Special Education

- Weight driven by the services in the student's IEP; no time restriction
 - 0.72
 - 1.21
 - 2.74
- Can apply to SBRC for additional spending authority for expenses incurred above the weight

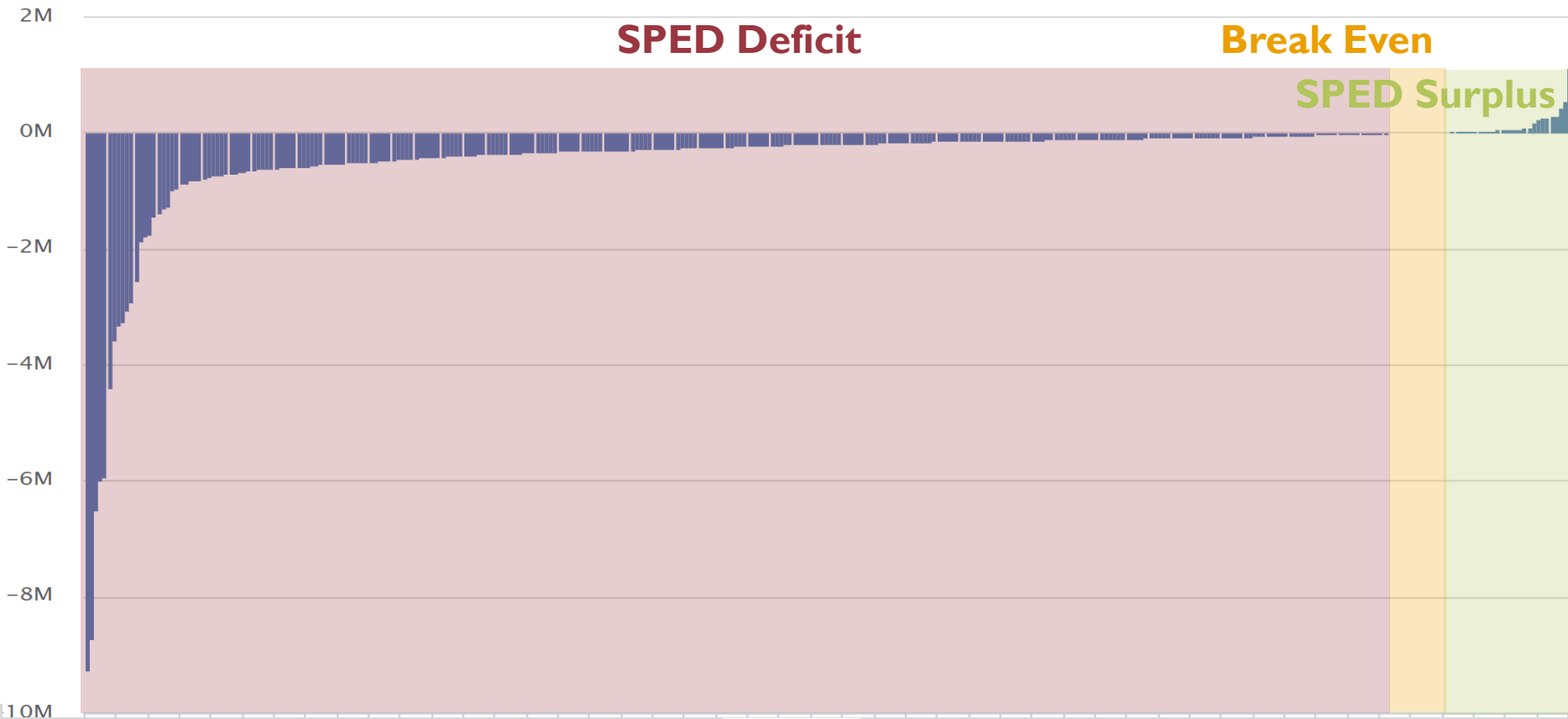
English Language Learner

- 0.295 (for up to 5 years)
- Can apply to SBRC for additional spending authority for expenses incurred above the weight (within the 5 years) OR additional time beyond the 5 years

Statewide SPED Deficit

Vast majority of Iowa districts have a SPED Deficit

Statewide: SPED Deficit \approx \$155 M



Growth in Spending Authority

Three Basic Ways



Increase in Supplemental State Aid



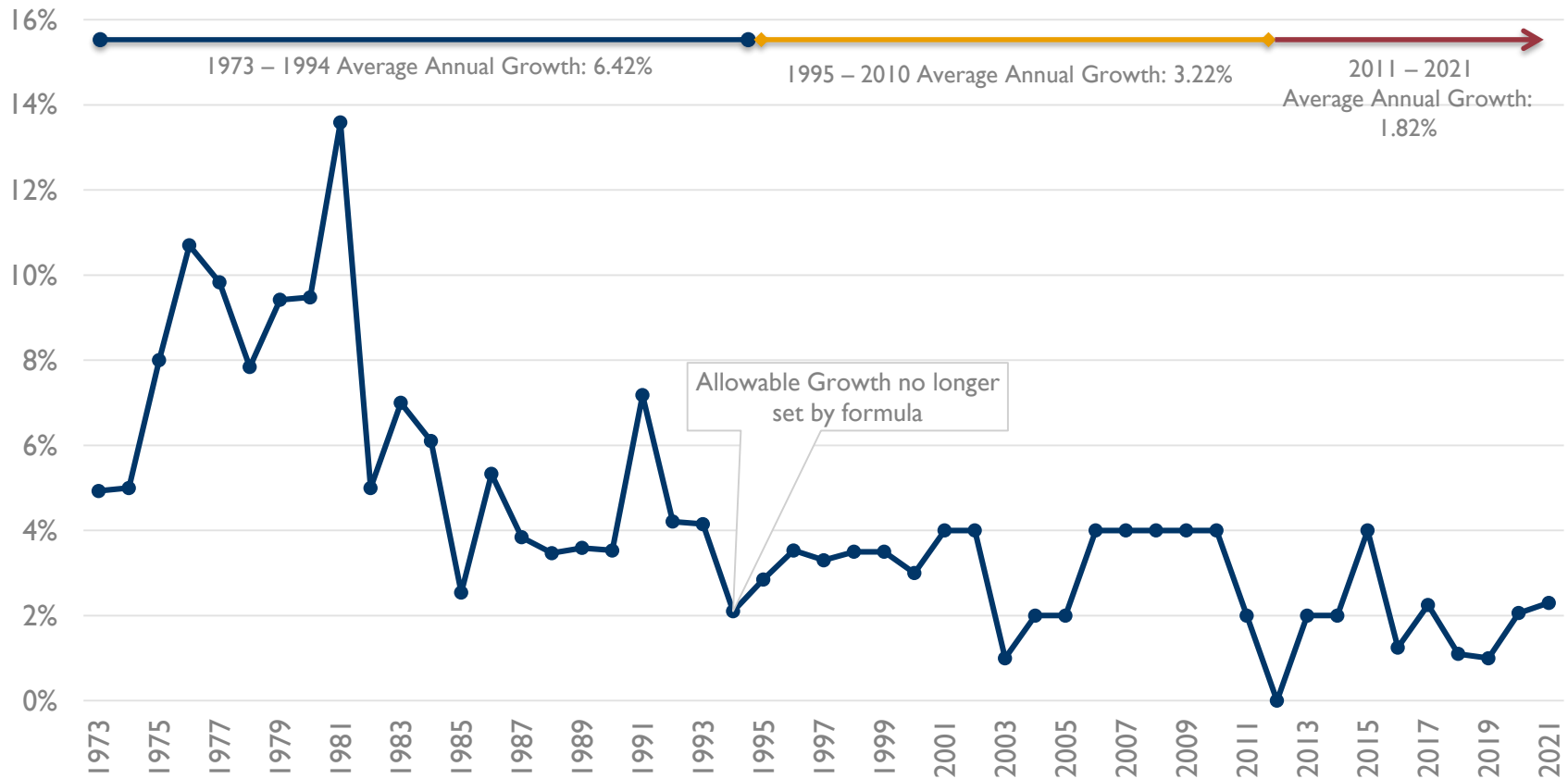
Increase in Student Enrollment



Increase in Miscellaneous Income

Historical Look at Supplemental State Aid

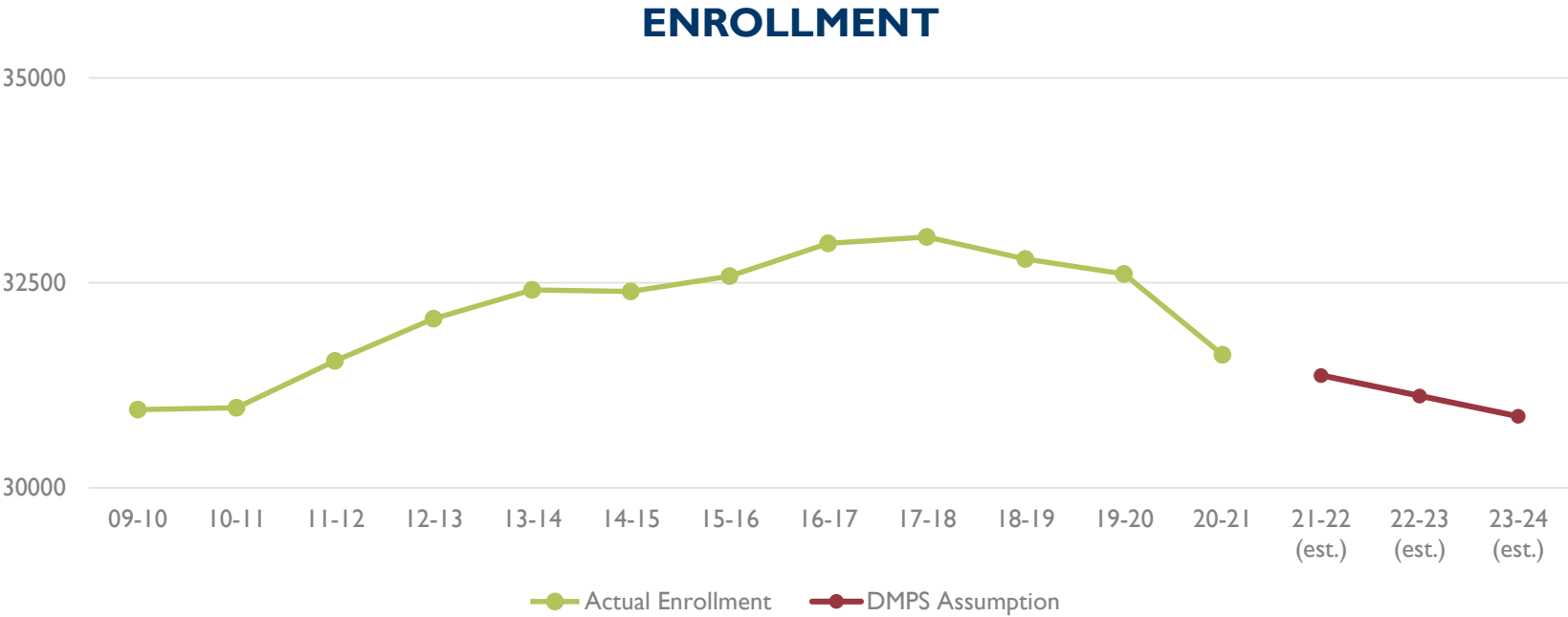
Annual Percent Growth



Example

- 1% SSA is ~ \$2.3 million for DMPS
- 1% increase in staff compensation (excluding health benefits) ~ \$4.6 million for DMPS
- Fuel, electricity, other costs of doing business will be need to be accounted for
- Enrollment loss ~ \$4.4 million

Student Enrollment Trend



Why is Spending Authority So Important?

It is illegal for a school district to exceed its total spending authority

Phase II Financial Viability Audit

The State Board of Education can close a school district for no other reason than financial unviability (not educational reasons)

How is Spending Authority Funded?

Combination of State Aid and Property Taxes:

Uniform Levy

- Local Property Tax Levy:
- \$5.40

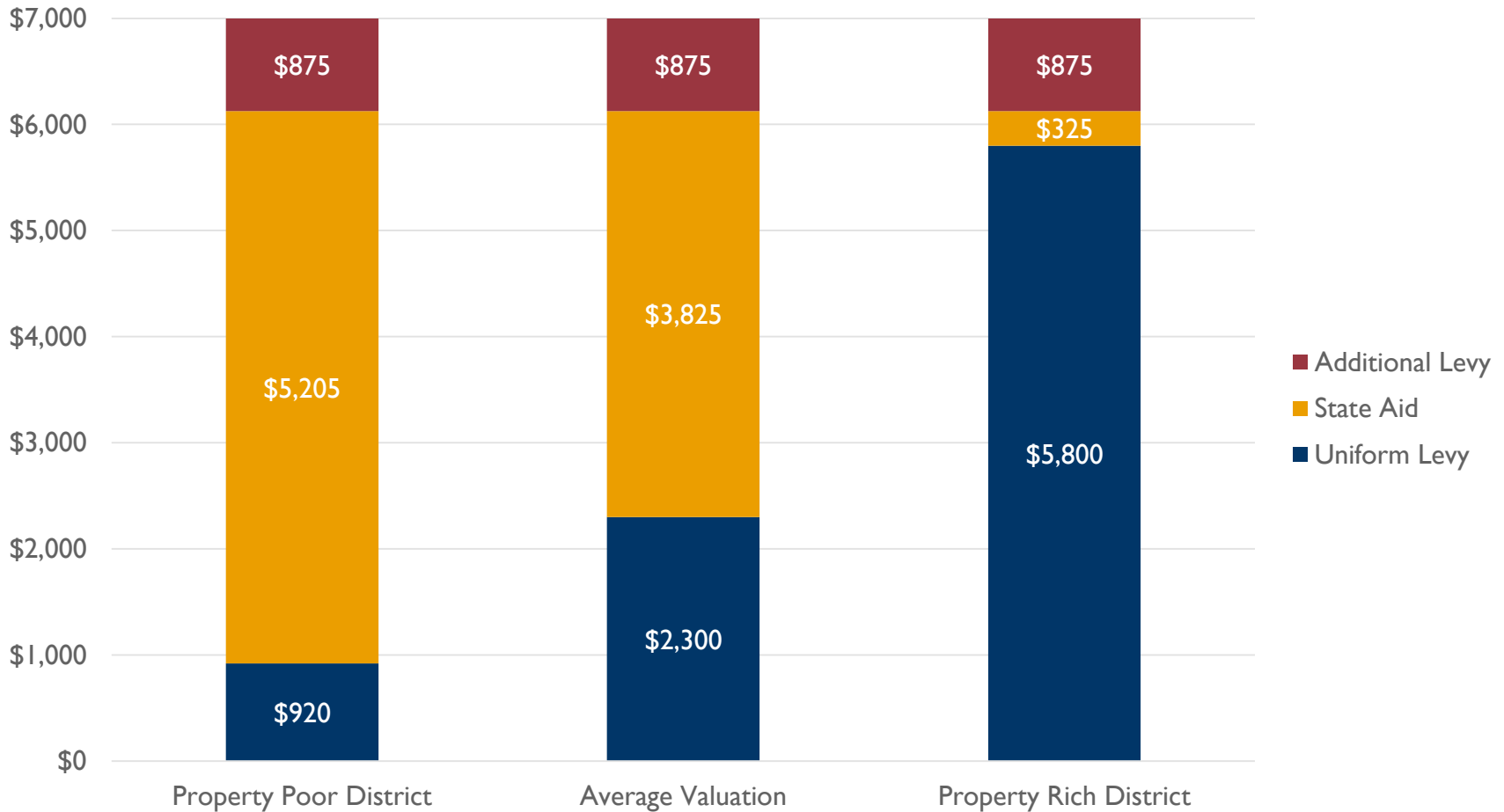
State Aid

- State Funding:
- Backfills up to 87.5% of the Cost Per Pupil

Additional Levy

- Local Property Tax Levy:
- No rate limit; adjusts automatically to fund the last 12.5% of the Cost Per Pupil

Example: \$7,000 Cost Per Pupil



General Fund Levies that Increase Spending Authority

Regular General Fund Levy

- Automatic; tied to cost per pupil

Instructional Support Levy (ISL)

- How much do we want to increase?
- How do we fund it?
 - Voter approval – up to 10 years
 - Board approval – up to 5 years

Dropout Prevention

- Maximum between 2.5% - 5% of Regular Program District Cost
- Used for services to dropouts or those at-risk of dropping out
- Effectively funded by all property tax

General Fund: Cash Reserve Levy

- Two Types:
 - SBRC: used to *fund* the spending authority granted by the SBRC, primarily for SPED deficits, open enrollment out
 - Other: cash flow (DMPS does not utilize)
- Does NOT create additional spending authority
 - *Cannot levy your way out of a spending authority problem*
- No rate limit on the levy, but a district cannot levy the Cash Reserve Levy if fund balance exceeds 20%
- This year there has been an increase in SPED deficit, ELL deficit, and enrollment out
 - Even though we get the Spending Authority, we do NOT get additional cash/funds

Solvency Ratio

“Solvency Ratio” is a moment-in-time (June 30) measure of the financial health of the district’s General Fund

Fund Equity Position



Why is the Solvency Ratio so important?

Revenue Comes in Waves

- Expenditures ≈ \$46M per Month

Tax Ratings

- Number one factor rating agencies look for

Downsides to Dramatic Changes In Solvency

Increases

- Public perception that the district is “flush”
- Run into Cash Reserve Levy Limits

Decreases

- **Impact on bond ratings**
- Inability to cover expenses due to revenue/expenditure timing

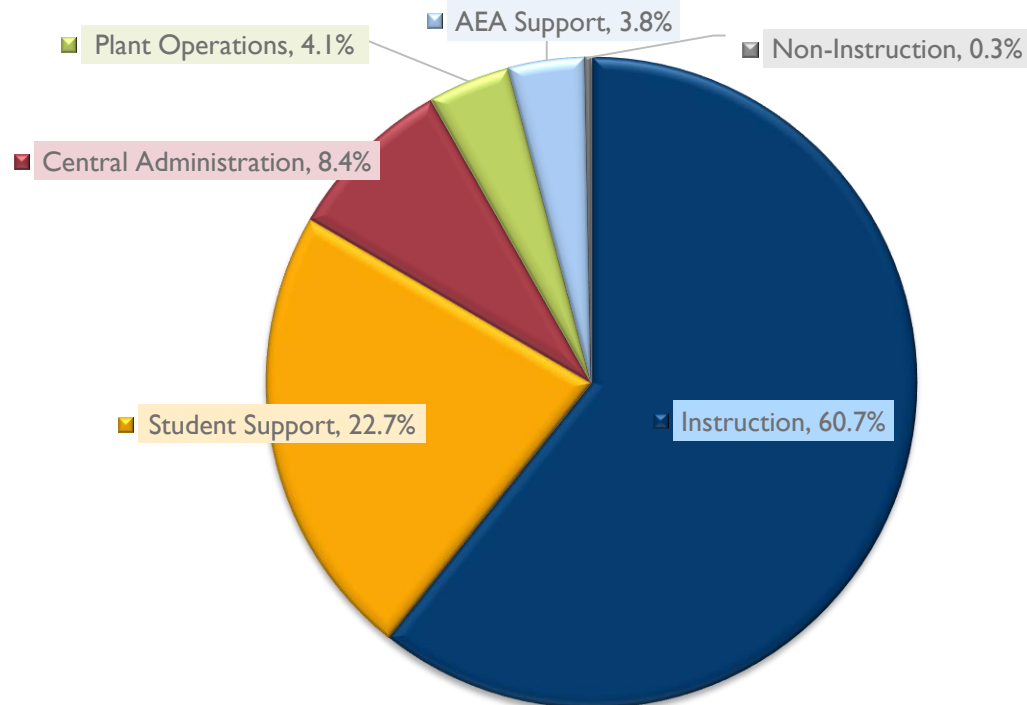
PART 4

Expenditures

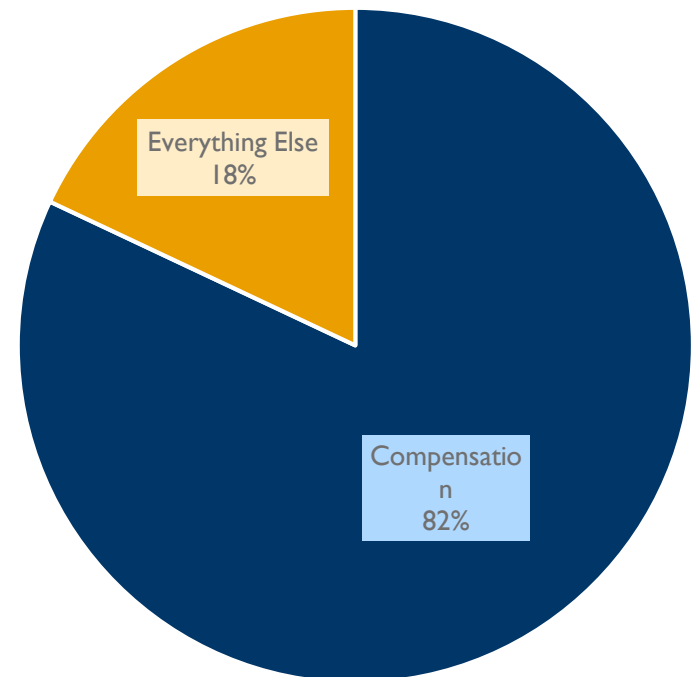
General Fund Expenditures (FY21 Budget)

- 82% of funds pay for staff
- The remaining 18% is spent on curriculum, utilities, supplies, materials, PD, transportation, educational programming, etc.

GENERAL FUND EXPENDITURES BY FUNCTION



GENERAL FUND EXPENSES



PART 5

Non-GF Funds

Non-GF Governmental Funds

- Most of the following funding sources cannot be used in General Fund and vice versa
- Might have money in one of these sources, but cannot use to offset a General Fund shortfall

Management

Risk management: Property insurance, Unemployment, Worker's Comp, Early Retirement, Risk Pools. Set annually as part of Certified Budget. All property tax.

PPEL

Facilities/Equipment: Buildings, buses, tech, energy conservation. Board approved set annually as part of Certified Budget - \$0.33/thousand all property tax. Voter approved (10 years), simple majority (50%) – will go to max (\$1.34/thousand) in FY 22

PERL

Recreation/community education. Voter approved (no end date), simple majority (50%) – max \$0.135/thousand all property tax.

Statewide Penny (SAVE)

Facilities/Equipment: any PPEL or Debt Service purpose. Revenue Purpose Statement required, simple majority (50%). Borrowing or unattached athletic facilities subject to reverse referendum.

Debt Service

Facilities: Buildings – project based. Voter approved (20 years), super majority (60%) – max \$4.05/thousand all property tax. (Do not currently utilize)

Non-GF Key Measures

Fund Balance

$$\begin{aligned} & \text{Beginning Fund Balance} \\ & + \text{Current Year Revenue} \\ & - \text{Current Year Expenditures} \\ & = \text{Ending Fund Balance} \end{aligned}$$

Trend

- What percentage is surplus?
- What is the trend? (up, down, stable)
- For PPEL/SAVE what obligations do we have in the future (facilities plan)? How much of our borrowing capacity has been committed? When are any bonds paid off?

Non-GF Key Measures

- Typical way a district sets the annual property tax rate:
 - **General Fund:**
 - Most of the rate is set by formula
 - Cash Reserve Levy is adjustable
 - **Management Fund:**
 - Set by Certified Budget – adjustable based on uses, as established by Board
 - **PPEL, Debt Service, and PERL:**
 - Usually not adjusted annually

Total Property Tax Rate	
	General Fund Levy
+	Management Levy
+	PPEL Levy
+	PERL Levy
+	Debt Service Levy
=	Total Property Tax Levy

PART 6

Final Items

Budget Guarantee / On-Time Funding

- 101% Budget Guarantee
 - Provides a buffer for enrollment decreases
 - New money of 1% over prior year Regular Program Cost
 - Funded solely with property taxes; requires Board approval
- On-time Funding
 - Mechanism in the funding formula to provide additional spending authority to serve kids in the year in which they appear
 - If all K-12 students return next year, can utilize to get the Spending Authority (but NOT the cash)

Cost Reduction Items to Evaluate



Early Retirement (for both DMTRS- and IPERS-covered employees)



Discontinuation of programs if they do not add to Board SMART goals



Health benefits



Staffing in all areas/departments



Moving costs from General Fund to SAVE/PPEL

Thing to Remember

Restrictions

District **cannot** use funds on anything it chooses

General Fund is the **least restrictive** fund

Revenue

Most revenue is from sources **outside the District's control**

Expenditures

Compensation is the largest expense in the General Fund

Compensation is the largest expenditure category of "All Funds"

Key Financial Measures

Spending Authority has been driving the budget

QUESTIONS OR ADDITIONAL INFORMATION NEEDED?



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