WEBSTER GROVES SCHOOL DISTRICT
EXECUTIVE SUMMARY
2018-19 BUDGET
April 9, 2018

BUDGET BACKGROUND AND PURPOSE

The Webster Groves School District is a substantial-sized organization serving a diverse and educated community. With an annual operating budget of about $60 million, a work force of more than 560 employees and enrollment of over 4,600 students (PK-12), the District is an important part of the local economy. By enrollment, the District is the 47th largest in Missouri (out of 557 public and charter districts) and by budget, is the 41st largest in the state.

The primary and essential functions of the District Budget are to:

1) Identify and estimate all significant district revenue sources;
2) Allocate available district resources among various programs and services in accordance with district priorities;
3) Provide a management framework for the timely & accurate identification of financial trends & budget-to-actual variances and fluctuations;
4) Insure district short- and long-term financial stability (through planning & maintenance of adequate fund balances); and
5) Serve as an accountability mechanism & report to community & stakeholders regarding district financial plans & priorities.

BUDGET GOALS/OBJECTIVES

The district's budget goals/objectives for 2018-19 are fairly simple and straightforward--to fund and support the staff, programs and facilities necessary to maintain and sustain the highest quality instruction possible in keeping with available resources, with particular emphasis on:

1) Maintaining class sizes below state maximum guidelines and as close to state desirable guidelines as possible;
2) Providing equal educational opportunity for all students regardless of race, gender, economics, orientation, etc.;
3) Maintaining current program service levels absent a deliberate/approved district consideration for program change;
4) Maintaining an adequate operating budget allocation for facility/capital projects in light of aging infrastructure;
5) Continuing to enable the district to maintain adequate fund balances to be cash-flow self-sufficient;
6) Supporting a fair, equitable and competitive level of staff compensation and benefits;

7) Positioning the district to maintain a sustainable budget over at least a 3 year planning horizon;
8) Supporting a significant level of high quality professional development opportunities;
9) Providing flexibility for evolving/changing district and student needs over time;
10) Promoting community engagement, communication and reporting;
11) Encouraging innovation and effective instruction/learning/management;
12) Providing contingency factor for unforeseen developments/emergencies outside of the district's control;
13) Implementing systems, policies, practices and procedures to improve operational efficiency wherever possible; and
14) Evaluation of existing programs and practices to assess their effectiveness, efficacy and efficiency.

BUDGET OVERVIEW

Projections for the 2018-19 fiscal year continue to be favorable. As expected, the projected surplus is gradually declining compared to the previous year (decreasing from $1.1 million surplus in 2017-18 to about $100K in 2018-19). This simply represents an ongoing and inherent structural imbalance between district revenue sources and district expenditures. Specifically, revenue growth tends to be constricted by limited state funding, limited growth (new construction) in the tax base and the district being limited to inflationary (CPI) property tax revenue adjustments **every other year**, while expenditure inflation occurs more steadily **every year**. In addition, the gradual phase out of the student transfer (VICC) program is reducing district revenues by about $70K per year. In spite of these financial challenges, the district has been able to maintain a balanced budget outlook thru a combination of good management and good fortune, even while adding new staffing ($250K) for enrollment growth, equity and a math intervention pilot. While 2018 is not a reassessment year, the district does expect to see a small amount of new construction, perhaps around .4%, this year. Furthermore, the district recently learned that one of the 2 existing Tax Increment Finance (TIF) areas in Webster (the Old Shoppes in Webster) was paid off early and would be transferred to the tax rolls in 2018-19. This represents another estimated $3.9 million (.5%) increase in the tax base. In addition, the state legislature appears committed to fully funding the foundation formula for a second straight year, and the state economy continues to strengthen. At the same time, District resident enrollment is slowly and steadily rising, which also tends to increase state funding.

The effect of this powerful combination of good management and good fortune is evident throughout the 2018-19 budget numbers and results in a projected slight budget surplus. Projected operating revenues of $60.6 million are up about $.6 million compared to last year (2017-18) when adjusted for the impact of the one-time full-day kindergarten settlement received. Similarly, operating expenses are at about $60.5 million, an increase of only about $740,000 (1.26%) over the revised 2017-18 budget. Adjusted for one-time facilities and building budget carryovers, however, the year over year comparison is a modest $1.6 million (2.68%) increase. Moreover, longer-range projections indicate a sustainable, though increasingly challenging financial path without the need for outside funding in the next 3 years. It is important to note, however, that the district MAY need to use a small amount (about $2.5 million) of its accumulated fund reserves from the past several years during the 2nd and 3rd years of this period. It is also important to note that such eventuality has been projected and planned for some time and is one of the specific reasons that the district has built and maintained surpluses in past years. In fact, the district's operating fund balances have increased by about $4 million over the past two years, providing ample reserves for cash flow, unforeseen emergencies and budget fluctuations--as well as covering budget deficits of limited amounts for a limited time as part of an overall systematic district financial plan.

REVENUE RECONCILIATION

2017-18 Budgeted Operating Revenues	$60,838,816
Add/<Deduct>:	
Foundation Formula Impact of One-Time Full Day Kindergarten	<$964,000>
Prop C Impact of One-Time Full Day Kindergarten	<$141,000>
State Aid Impact of Increasing Student Enrollment	$242,000
State Aid Impact of Increased State Adequacy Target	$45,000
Property Tax Impact of .4% New Construction	$152,000
Property Tax Impact of Old Shoppes TIF	$190,000
Increase in Projected Financial Institutions Tax	$50,000
Impact of Declining VST Enrollment	<$70,000>
Revenue Impact of One-Time FDK Tuition Refund	$360,000
Unaccredited District Tuition Adjustment (change from full to $7K)	<$71,000>
All Other Net Revenue Increases/Decreases	<$32,716>
2018-19 Budgeted Operating Revenues	$60,599,100

EXPENDITURE RECONCILIATION

2017-18 Budgeted Operating Expenditures	$59,751,980
Salary Adjustments	$1,001,737
Teacher Retirements	<$500,000>
Teacher Channel Changes	$200,000
Additional Staffing for Class Sizes, Equity and Math Intervention	$214,000
Medical Insurance Increase	$380,000
Retirement Contribution Impact of Salary and Staffing Changes	$22,400
1.8% Inflation Allowance	$197,500
Projected Increased Utility Efficiency	<$38,000>
Establish Superintendent Discretionary Fund	$50,000
Reduction in Legal Fees (due to conclusion of FDK suit)	<$30,000>
Increase in Food Service to Balance with Revenues (self-supporting)	$147,900
Adjustment for Carryover of Unspent Building & Facilities Budgets	<$805,000>
All Other Net Expenditure Increases/Decreases	<$95,417>
2018-19 Budgeted Operating Expenditures	$60,497,100

FUND BALANCE OVERVIEW

District fund balances have been at a healthy level for the past several years and are projected to be about $24 million as of the 2017-18 fiscal year-end. This significantly exceeds both the minimum amount recommended by DESE and the minimum amount required by the district for cash flow purposes throughout the year. For Webster Groves School District, this minimum threshold needed is around 25% (about $15-16 million) of annual operating expenses. In comparison, the District's operating fund balances are running around 40%. The proposed 2018-19 budget would maintain this level of fund balances. These fund balances are an important part of maintaining the financial stability and sustainability of ongoing district operations by not only providing for the district's cyclical cash flow needs, but also effectively providing a contingency fund for emergencies, for unforeseen financial issues and for budget management without disrupting essential district operations either during a school year or even multiple years when properly planned, controlled and managed. This is demonstrated in the 3 year projections where, in conjunction with reduced capital expenditures, a small amount of operating fund balances (about $2.5 million) MAY be needed to balance the budget. Even so, operating fund balances are still not projected to drop below 34% during this upcoming 3 year period.

<u>3-YEAR BUDGET PROJECTIONS</u>

An important part of budget planning is taking a longer-term view of current year decisions in order to assess the financial sustainability of current and planned operations. Therefore, accompanying this Executive Summary are materials related to 3-year financial projections covering the period 2018/19 through 2020/21. These projections are based on conservative estimates of revenues and expenditures using the best information currently available.

As previously noted, the district begins with a small operating surplus of about $100K for the first year (2018-19), then moves to a deficit of about <$600K> in 2019/20 concludes with about a <$1.9> million deficit in the third and final year 2020/21. This negative trend results from the previously noted slight structural imbalance in projected operating revenues versus projected operating expenditures of about 1.5% (about $1 million) per year. In my opinion, this is no cause for undue concern as the district has foreseen, prepared for and effectively delayed the eventual deficit for several years now. Use of conservative budget practices have helped a great deal in this regard, along with continuous emphasis on improving efficiency and cost control. Furthermore, the district has banked a significant amount of prior year surpluses that can be used when that nearly inevitable deficit finally comes calling. At any rate, through continuing budget management and the potential use (if necessary) of a relatively modest amount of available surplus fund balances (about $2.5 million or less), the district’s budget appears sustainable for the upcoming 3 years.

This sustainability and predictability can be further demonstrated by comparing net budget projections made a year ago to updated current projections, as follows:

	2017/18	2018/19	2019/20	2020/21
Net Sur/<Def> from 6/2017	$993,500	<$95,000>	<$896,000>	-
Net Sur/<Def> from 4/2018	$1,086,800	$102,000	<$609,000>	<$1,899,000>

Difference	+$93,300	+$197,000	+$287,000	n/a

Benchmarked against a $60 million budget, these changes represent less than a .5% fluctuation compared to last year's expectations, indicating a high degree of budget projection accuracy and stability.

In addition, the district has built up strong fund balance reserves of about $24 million over the past few years, amounting to about $8 million more than required for annual cash flow self-sufficiency purposes. These "extra" reserves then function as insurance for any negative financial developments or unforeseen emergency needs that may occur in the future.

Again, it's worth repeating that the district revenue and expenditure projections both are based on conservative estimates. Therefore, actual results are likely to be slightly more favorable—i.e. actual revenues are likely to be a little (but not a lot) greater than projected while actual expenditures are likely to be a little (but not a lot) less than projected.

Finally, the district is continuing to work on improving operational efficiency from an expense standpoint and maximizing resources from a revenue standpoint. These efforts should serve to further improve the financial outlook. While these efficiencies may occur one small piece and one small step at a time, they can be significant over time and cumulatively.

Going forward, the budget exercise each year will be to weave the already close revenue and expenditure ends together on a year-by-year basis based on current information and district needs at that time. The important step is simply to keep the ends relatively close together at all times, so balancing the budget doesn't suddenly become a huge challenge. The District and administration are further committed to working during each fiscal year to reduce future projected deficits and to extend its projection of sustainability and excellence for additional years.

We will discuss this information and any further budget goals the Board of Education has for the district at the meeting.