

**WEBSTER GROVES SCHOOL DISTRICT**  
**EXECUTIVE SUMMARY**  
**2018-19 BUDGET**  
**JUNE 11, 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 DEVELOPMENT PROCESS/TIMELINE**

The District Budget is prepared annually by the Office of the CFO/COO. The process begins in the late fall with adjusting and updating the current year budget for any new and updated information regarding tax rates, assessed valuations, tax collection rates, state funding levels, student enrollment levels, attendance rates, staffing levels, unforeseen events, and other relevant factors. These budget adjustments are generally presented for Board approval in November/December. Work then begins on developing the following year's budget in February.

The most significant revenue and expense elements of the budget are calculated from the ground up each year based on estimates of the individual components of the budget item. Other less significant budget estimates are developed based on a simpler trend analysis using actual data for the previous year (or past few years), adjusted for any expected/known changes for the coming year. Any changes to reflect program/service level adds/cuts/changes are also incorporated into the budget estimates.

A draft budget is then presented to the Board for review in April of each year, with a final budget adoption in June prior to the beginning of the fiscal year on July 1<sup>st</sup>. As part of this

process, multiple year budget projections are also prepared in order to assess program/priority/funding sustainability over the long term.

Throughout this entire development process, the District Finance Advisory Committee-FAC (one of 3 Board committees) meets monthly to monitor and provide advice regarding the District's financial position and budget plans. In fact, the FAC reviewed and approved the preliminary April draft 2018-19 District Budget.

### **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 support 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**

The budget for the 2018-19 fiscal year and projections for the foreseeable future continue to be relatively solid in spite of sluggish overall revenue levels. As expected, the projected surplus is gradually declining compared to the previous year (decreasing from a \$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 versus district expenditure growth trends. Specifically, revenue growth tends to be constricted by limited state funding levels and limited growth (new construction) in the tax base due to the district already being essentially "fully developed". This underlying financial imbalance is then further magnified by 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, even while adding new staffing (\$250K) for enrollment growth, equity and a math intervention pilot for the coming year. While 2018 is not a reassessment year, the district does expect to see a small amount of new construction, perhaps around .4%. Furthermore, one of the 2 existing Tax Increment Finance (TIF) areas in Webster (the Old Shoppes in Webster) was paid off early and will be transferred to the regular tax rolls in 2018-19. This represents another \$5.8 million (.7%) increase in the tax base. In addition, the state legislature has fully funded 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 as it is primarily distributed on the basis of student attendance.

This revenue outlook is further bolstered by efficiency improvements and revenue enhancements including:

- Full Day Kindergarten state revenues
- Energy efficiency projects (LED lighting, retro-commissioning, activity monitoring)
- Salary Schedule restructuring
- Fund balance investment management
- Large number of staff retirements
- Public Placement funding for foster students
- Discontinuing unneeded participation in SCOPE and Management School
- Bond issue refunding to lower interest rate
- Restructuring district-wide copy/print contract
- Restructuring of Great Circle and Epworth student attendance reporting
- One-time upgrade of district phone system to reduce monthly line charges
- Purchase vs lease of warehouse forklift
- Carryover of unspent building budget funds

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 \$61.5 million are up about \$1.5 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 \$61.4 million, an increase of only about \$1.25 million (2.08%) over the revised 2017-18 budget. 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 \$1.66 million) of its accumulated fund reserves from the past several years during the 2nd and 3rd years of this period (this is down significantly from an earlier estimate of \$2.5 million). 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.

## MAJOR REVENUE OVERVIEW AND RECONCILIATION

### Revenue Overview

Like many public school districts in Missouri, WGSD is highly dependent on local revenue sources. In fact, nearly two-thirds of District operating revenues are derived from local property taxes alone. Throwing in another 13.8% from the State Formula and about 6.6% from Prop C reveals that 85.9% of WGSD's operating revenues are comprised of just these 3 revenue sources. Furthermore, this proportion has been steadily increasing over the past several years. As a result, WGSD's overall resource base is highly dependent on the health of the local tax base and, to a significant but lesser extent, the state economy. This concentration of revenues also has a substantial impact on the District's cash flow profile as the overwhelming bulk of property taxes in particular are collected in the single months of December and January each year.

Historical trend and budget projections for these 3 major revenue sources and the factors used in their computation are as follows:

	2015-16 <u>Actual</u>	2016-17 <u>Actual</u>	2017-18 <u>Budget</u>	2018-19 <u>Projected</u>
Assessed Valuation	\$733,967,650	\$740,899,120	\$806,529,140	\$815,626,546
Property Tax Collection Rate	96.54%	97.49%	97.79%	97.80%
Adjusted Operating Tax Levy	\$5.2069	\$5.1975	\$4.8939	\$4.8939
Debt Service Tax Levy	\$5.5699	\$5.5699	\$5.5699	\$5.5699
State Adequacy Target (SAT)	\$6,146	\$6,177	\$6,241	\$6,280
Dollar Value Multiplier (DVM)	1.092	1.095	1.094	1.095
Prop C per ADA	\$948	\$979	\$979	\$986
Avg Daily Attendance (ADA)	4,095	4,087	4,135	4,182
Property Taxes – Lines 1 & 2	\$38,212,769	\$38,854,782	\$39,805,294	\$40,255,000
State Formula – Line 16	\$5,888,747	\$7,867,357	\$8,773,000	\$8,500,000
Prop C – Line 4	\$3,682,644	\$3,868,764	\$4,155,287	\$4,078,000
<b>Total</b>	<b>\$47,784,160</b>	<b>\$50,590,903</b>	<b>\$52,733,581</b>	<b>\$52,833,000</b>
<b>% of Operating Revenues</b>	<b>83.687%</b>	<b>83.680%</b>	<b>86.682%</b>	<b>85.883%</b>

Most other revenue sources are stable or slightly increasing next year, with the most notable exceptions being:

- Line 6-Tuition (due to declining unaccredited district enrollees and tuition rate)
- Line 11a-Transfer student tuition (due to declining VST enrollment)
- Line 11b-Preschool tuition (due to a restructuring of the program)

2018-19 Property Tax Levies by Fund are projected at (no change from 2017-18):

<u>Fund</u>	<u>Unadjusted</u>	<u>Adjusted</u>
General	\$3.0414	\$3.0414
Teachers	\$1.7900	\$1.7900
Building	\$0.0625	\$0.0625
Debt Service	\$5.5699	\$5.5699

## Revenue Reconciliation

2017-18 Budgeted Operating Revenues	\$60,835,463
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	\$317,000
State Aid Impact of Change in Great Circle IEP ADA	\$196,400
Property Tax Impact of .4% New Construction	\$152,000
Property Tax Impact of Old Shoppes TIF	\$284,000
Increase in Preschool Revenues	\$144,200
Increase in Adventure Club Revenues	\$51,900
Increase in E rate Revenues	\$35,000
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	<u>\$95,337</u>
2018-19 Budgeted Operating Revenues	<u>\$61,517,300</u>

## **MAJOR EXPENDITURE OVERVIEW AND RECONCILIATION**

### Expenditure Overview

	2015-16	2016-17	2017-18	2018-19
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Projected</u>
Salaries	\$36,020,362	\$36,145,982	\$37,249,763	\$38,389,400
Benefits	\$8,624,253	\$8,811,828	\$9,594,945	\$10,145,800
All Other Operating Exp's	<u>\$10,503,164</u>	<u>\$11,206,524</u>	<u>\$13,317,272</u>	<u>\$12,879,600</u>
<b>Total</b>	<b>\$55,147,779</b>	<b>\$56,164,334</b>	<b>\$60,161,980</b>	<b>\$61,414,800</b>
<b>Operating Expense per ADA</b>	<b>\$13,467</b>	<b>\$13,742</b>	<b>\$14,549</b>	<b>\$14,685</b>

Like the vast majority of other school districts, the bulk (about 75-80%) of WGSD's operating expenditures is comprised of staff salaries/benefits (and the large majority of those are for teaching staff). Each staffing area is generally correlated to a relevant factor such as student enrollment (instructional staffing, building square footage (custodial staffing), outdoor area (grounds staffing), number and size of buildings and enrollment (building administration staffing), number of schools and enrollment (nurse staffing), and so forth. Because no significant changes in the facilities configuration, organizational structure, student enrollment or other relevant district factors are expected for next year, there are only limited staffing level changes incorporated into the 2018-19 budget. Specifically, the budget allows for 2 additional teachers at Edgar Road due to increasing student enrollment, the addition of .8 FTE for High School/Hixson Spanish (offset by the elimination of the High School administrative intern), and the equivalent of about 1 FTE for implementation of a new math intervention program initiative. Therefore, the overwhelming bulk of year over year salary changes indicated in the budget are due to relatively modest annual salary adjustments as opposed to staffing changes.

With respect to the benefit cost aspect of staffing, the state retirement, FICA and Medicare contribution rates are unchanged at 6.86% for support staff retirement, 14.5% for certified staff, 6.2% for FICA and 1.45% for Medicare. However, like nearly all other organizations, Webster is continuing to experience rising health (specifically medical) insurance costs. While these insurance costs have historically been shared by the district and employees (about 90% district/10% employees for employee coverage and 0% district/100% employee for spouse and dependent coverage), the district plans to absorb the full 8.9% medical premium increase for 2018-19 in order to maintain a comparable and competitive position relative to the amount of benefit costs paid for employees by other St Louis County school districts.

The remaining portion (about 25%) of the operating budget is comprised of non-salary/benefit costs. Primary among these are (explanations of variances are shown on the budget document):

	2015-16 <u>Actual</u>	2016-17 <u>Actual</u>	2017-18 <u>Budget</u>	2018-19 <u>Projected</u>
Line 51-Utilities	\$1,014,760	\$1,178,924	\$1,238,000	\$1,200,000
Line 59-Insurance	\$767,064	\$734,226	\$806,250	\$813,000
Line 69-Student Activities	\$1,580,497	\$1,781,305	\$1,980,600	\$2,000,000
Line 75-Food Service	\$983,993	\$904,076	\$998,000	\$1,145,900
Line 81-Adventure Club	\$946,208	\$919,426	\$1,090,000	\$1,141,900
Line 84-Preschool(incl Headstart)	\$1,255,873	\$1,185,177	\$1,232,000	\$1,432,000
Line 89a-Tuition-other districts	\$1,293,386	\$1,449,191	\$899,400	\$898,000
Line 96-Building Improvement	\$174,455	\$175,462	\$1,896,426	\$1,349,000
Various-Building budget alloc.			\$1,205,682	\$1,179,300

Most of the foregoing line items are part of self-supporting programs (Lines 69, 75, 81 and 84), while all of the others are either reduced or have only very slightly increased compared to last year.

All other expenditure line items combined comprise less than 3% of district operating expenses and are not individually material when compared to the overall budget.

#### Expenditure Reconciliation

2017-18 Budgeted Operating Expenditures	\$60,161,980
Salary Adjustments	\$1,001,737
Teacher Retirements	<\$600,000>
Teacher Channel Changes	\$200,000
Additional Staffing for Class Sizes, Equity and Math Intervention	\$214,000
Medical Insurance Increase	\$382,000
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 Adventure Club (balance with revenues)	\$51,900
Increase in Preschool (balance with revenues)	\$192,500
Increase in Food Service to Balance with Revenues (self-supporting)	\$147,900
Increase in Federal Program Costs	\$76,000
Increase in Budget for Capital Projects (Line 96 Building Imp's)	\$141,000
Adjustment for Carryover of Unspent Building & Facilities Budgets	<\$805,000>
All Other Net Expenditure Increases/Decreases	<u>&lt;\$48,883&gt;</u>
 2018-19 Budgeted Operating Expenditures	 <u>\$61,414,800</u>

## **FUND BALANCE OVERVIEW**

District fund balances have been at a healthy level for the past several years and are projected to be about \$23.7 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, the 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 39-40%. The proposed 2018-19 budget would maintain this solid 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 \$1.66 million) MAY be needed to balance the budget. Even so, operating fund balances are still not projected to drop below 35% during this upcoming 3-year period.

## **DEBT SERVICE FUND**

The Debt Service Fund is dedicated and restricted solely to making principal and interest payments on outstanding district bonded indebtedness, along with any bond issuance costs, bank fees or legal expenses related to the District's long-term debt. Since all of the district's bonds have fixed interest rates, bond amortization schedules and therefore budgeting needs are known with certainty except for the relatively small amount of bank fees and legal expenses each year. While state statutes allow schools to maintain a fund balance of up to one year's debt service requirements, past declines in the district's tax base and a fixed levy at \$.5699 combined with scheduled increases in annual principal payments to erode debt service reserves over the past several years. In fact, reserves dwindled to the point that the Debt Service Fund had a negative cash flow at certain times during the fiscal year. Fortunately, the tax base began recovering in 2015, and in conjunction with Board approved fund balance transfers to the Debt Service Fund and the recent bond refunding completed in December 2017, the district is back on a viable path to a healthier Debt Service Fund. This is demonstrated by the growing Debt Service fund balance, which has increased from a mere \$197K in June 2016 to over \$2.9 million projected for the end of June 2018 (excluding the \$18.59 million of escrowed proceeds

from the December 2017 bond refunding). As a result, the district now projects an available bonding capacity of about \$11 million that could be supported without increasing the current \$.5699 debt service levy. Furthermore, this no tax increase capacity is projected to increase by an average of about \$2 million each year going forward.

## **FUTURE OUTLOOK**

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, a 3-year financial outlook, which contains projections for FY 2019-20 and FY 2020/21, are included along with the 2018-19 budget. 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 \$102K for the first year (2018-19), then moves to a deficit of about <\$281K> in 2019/20 and concludes with about a <\$1.4> 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. This is no cause for undue concern as the district has foreseen, prepared for and effectively delayed the eventual deficit for several years now and is likely to continue doing so for at least a few more years. 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 in the amount of about \$24 million over the past few years, which is 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 and that can be used when that nearly inevitable deficit position 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 \$1.66 million or less), the district’s budget appears comfortably sustainable for at least the upcoming 3 years.

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.

Looking ahead, 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. Some factors which could influence these ongoing efforts (both positively and negatively) are indicated in the following sections.

### **FUTURE POSITIVES**

1. Additional TIF values that will be coming on tax rolls 2028 (\$9.2 million).
2. Potential no tax increase bond capacity could help relieve operating budget of some capital outlay type expenditures.
3. District may eventually move out of the high risk health insurance tier which would help reduce future premium hikes.
4. Rising short term interest rates may increase the districts investment earnings.
5. Continued focus on operational efficiencies.
6. New salary models help moderate future salary increases & provide competitive adjustable benchmark for lean times.
7. Growing simple majority operating tax rate increase margin available.
8. Generally conservative budgeting approach in projecting both revenues and expenditures.
9. Potential salary/benefits savings from staff retirements due to aging workforce.
10. Rising real estate values for reassessment in odd-numbered years.
11. Slowly increasing enrollment may increase state funding.
12. Strong fund balance position.

### **FUTURE NEGATIVES**

1. Future status of Public Placement Funding level by State(possible service, facility and/or contracted expense impact).
2. Rising interest rates may increase the cost of future new debt issuance.
3. Nothing currently under consideration, but there is always potential for future increase in state retirement contribution rates.
4. Nothing currently under consideration, but there is always potential for future increase in FICA or Medicare contribution rates.
5. Large increases in health insurance costs likely to continue for at least a few years.
6. May need new facilities space due to increasing enrollment at Edgar Road and Clark.
7. Rising repair, maintenance and renovation costs due to aging district facilities and infrastructure. Potential future bond issue may be needed.
8. Stability of future State Funding in general.