WEBSTER GROVES SCHOOL DISTRICT
EXECUTIVE SUMMARY
2019-20 BUDGET
April 22, 2019

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 46th largest in Missouri (out of 557 public and charter districts) and by budget, is the 44th largest in the state (based on 2017-18 data).

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 2019-20 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 a 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;
14) Evaluation of existing programs and practices to assess their effectiveness, efficacy and efficiency;
15) Making provisions for the debt service fund to remain cash flow self-sufficient while supporting current and new bond debt in future years; and
16) Plan and prepare for the eventual relocation of 6th grade from Steger to Hixson and for the restructuring of elementary attendance boundaries, both expected to occur in 2021-22.

BUDGET OVERVIEW

Projections for the 2019-20 fiscal year continue to be favorable. Thanks to the slight revenue boost from 2019 being a reassessment year, the district's finances remain fairly stable, with a balanced budget for 2019-20, which is a comparable situation to last year. While this is good news for the coming year, it is also critically important to be mindful of the longer term financial trends of slower revenue growth relative to normal expenditure inflationary pressures. This financial tension simply represents an inherent and ongoing 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 and federal revenue sources are also slowly declining. 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. Specifically, this staffing consists of $138K to maintain elementary class sizes, $69K for the new THRIVE program staffing, $69K for elementary health staffing, $69K for Hixson PE staffing and $69K for additional (one year only) gifted staffing at Hixson. The revenue to cover these incremental staffing costs originates from a 1.9% property tax reassessment CPI allowance and about .4% of new construction property tax growth. In addition and with credit being given to the state legislature and the Governor for their commitment to public education funding, state aid revenues from the Foundation Formula and Prop C sales taxes are also expected to increase under preliminary education appropriations for 2019/20.

The effect of this powerful combination of good management and good fortune is evident throughout the 2019-20 balanced budget numbers. Projected operating revenues of $62.93 million are up about $1.16 million (1.88%) compared to last year (2018-19). Similarly, operating expenses are at about $62.92 million, an increase of about $1.19 (1.91%) over the revised 2018-19 budget. While longer-range (3 year) projections indicate a sustainable financial path without the need for outside funding in the next 3 years, this path becomes increasingly challenging going forward and may require the district to begin dipping into its fund balance reserves to make ends meet. Specifically, the current outlook indicates the district MAY need to use a reasonable portion (about $1.6 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 nearly $8 million over the past four years. These additional reserves provide an ample cushion for cash flow, unforeseen emergencies and budget fluctuations. They also serve as a contingency for covering potential future budget deficits of limited amounts for a limited time as part of an overall systematic district financial plan.

REVENUE RECONCILIATION

2018-19 Budgeted Operating Revenues	$61,772,900
Add/<Deduct>:	
Property Tax Impact of .6% New Construction	$238,200
Property Tax Impact of 1.9% CPI/Reassessment Allowance	$754,200
State Aid Impact of Increased State Adequacy Target ($6308 vs $6280)	$138,200
State Aid Impact of decrease in local effort deduct (due to falling tax rate)	$40,300
Increase in Projected Prop C Sales Taxes per ADA ($1005 vs $986)	$78,500
Increase in Projected Prop C Sales Taxes due to 48 ADA increase	$48,000
Impact of Declining VST enrollment	<$103,500>
Decrease in Unaccredited District Tuition Enrollment	<$56,000>
All Other Net Revenue Increases/<Decreases>	$21,400
2019-20 Budgeted Operating Revenues	$62,932,200

EXPENDITURE RECONCILIATION

2018-19 Budgeted Operating Expenditures	$61,738,593
Salary Adjustment - Teachers	$482,700
Salary Adjustment – Support Staff	$194,400
Salary Adjustment – Administrators	$127,600
Projected Teacher Retirement Savings	<$290,000>
Projected Teacher Channel Changes	$140,000
6.2 FTE New Staffing for Class Sizes, THRIVE, Gifted & Elementary Health	$328,600
New COO Position	$140,000
Reduction in Contracted COO/CFO	<$97,000>
10% Medical Insurance Premium Increase	$402,700
Retirement Contrib Impact of Salary, Benefits & Staffing Changes	$222,600
Estimated Savings from Converting Voice Land Lines to VOIP (Internet)	<$30,000>
Elimination of One-Time Workers Comp Premium Discount	$78,900
General 2.2% Inflation Allowance	$299,200
Adjustment for Carryover of Unspent Facilities Budgets	<$455,000>

Adjustment for Carryover of Unspent Building Budgets	<$171,000>
Adjustment for One Time WGHS Food Serving Line Renovation	<$147,000>
All Other Net Expenditure Increases/Decreases	<$48,393>
2019-20 Budgeted Operating Expenditures	$62,916,900

FUND BALANCE OVERVIEW

The district operating fund balance has been healthy and slowly growing for the past several years and is projected to be about $26 million as of the 2018-19 fiscal year-end. About $2 million of this balance is dedicated toward self-funded programs such as Preschool Adventure Club, Student Activities and Food Service, leaving about $24 million available to support normal district operations. 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 $16 million) of annual operating expenses. In comparison, the District's undedicated operating fund balances are running around 38%. The proposed 2019-20 budget would maintain this level of fund balances. Such fund balances are an important part of maintaining the financial stability and sustainability of ongoing district operations. They not only provide for the district's cyclical cash flow needs, but also effectively provide 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 $1.6 million) MAY be needed to balance the budget. Even so, operating fund balances are still not expected to drop below 34% during this upcoming, rolling 3 year projection period.

3-YEAR BUDGET PROJECTIONS

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 2019/20 through 2021/22. 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 $15K for the first year (2019/20), then moves to a deficit of about <$559K> in 2020/21 concludes with about a <$1.07> million deficit in the third and final year 2021/22. 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 (and has been borne out during the past few annual budget cycles), 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 $1.6 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:

	2018/19	2019/20	2020/21	2021/22
Net Sur/<Def> from 6/2018	$102,500	<$280,900>	<$1,384,700>	n/a
Net Sur/<Def> from 4/2019	$34,300	$15,300	<$558,800>	<$1,071,200>
Difference	<$68,200>	+$265,600	+$825,900	n/a

Benchmarked against a $60 million budget, these changes represent less than a 1.5% fluctuation (less than a .5% fluctuation for 2018/19 and 2019/20) compared to last year's expectations, indicating a high degree of budget projection accuracy and stability.

In addition, the district has built up strong undedicated operating 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.