

**MEMO TO: BOARD MEMBERS
DR. JOHN SIMPSON**

FROM: BRUCE ELLERMAN

DATE: JUNE 26, 2017

RE: 2016-2017 FINAL BUDGET ADJUSTMENTS

As the 2016-17 Budget year comes to a close, there is only one budget adjustment and one balance transfer needed at this time as detailed below.

BACKGROUND

The District has had a long-standing practice of adjusting budget figures to actual at the end of each fiscal year as part of the budget development process for the following year since budgets were based on “trend projections”. However, we are diverging from this practice beginning this year so an en masse conversion to actual at year-end is no longer needed. This change is being implemented for two reasons.

First, it will enable the district to do a meaningful budget to actual comparison at year end for analysis purposes. This will comprehensively identify any significant budget to actual variances for analysis, facilitate refinement of the budget development process and more meaningfully inform the Board about how realistic and accurate the budget plan was for the District.

Second, the most significant revenue and expense budget line items will now be primarily estimated based on relevant current and expected factors instead of being primarily based on past trends. These significant items include the revenue items of Property Taxes, Foundation Formula, Prop C, Pre-School, Adventure Club and Tuition. Significant expenditure items include Salaries, Benefits, Retirement, FICA, Building Budget Allocations, Transportation, Pre-School and Adventure club. Trend projections will then be used for a reasonableness check on these major budget items and for projecting less significant budget amounts.

BUDGET ADJUSTMENT

The only budget adjustment needed is to increase budget line 102 “Interest and Fees” for the Debt Service Fund by \$5,000 as follows:

Description	Current Budget	Adjustment	Revised Budget
Line 102 "Interest and Fees"	\$2,197,400	+\$5,000	\$2,202,400

Because interest and principal payments are known in advance, the district budgets the exact amounts needed for such payments. However, the amount of paying agent fees, bank fees, transfer fees, etc. has to be estimated. These fees slightly exceeded the original budget and were going to cause the overall Debt Service fund to go over budget, which is prohibited by state law. Therefore, this adjustment was needed to prevent this over budget condition as of year-end.

FUND BALANCE TRANSFER

As previously reviewed with the Board, the Debt Service Fund Balance is not adequate to allow the Debt Service Fund to be cash flow self-sufficient. Because of the difference in cash flow timing for interest and principal payments (September and March) during the year versus the timing of revenue receipts (December and January), the debt service fund had been temporarily going into the red from September to December for the past few years. This timing imbalance had been covered by the debt service fund "borrowing" from the operating funds to cover the temporary shortfall and then paying back the operating funds in December when property tax revenues were received. Therefore, the administration and the Finance Advisory Committee are recommending the District transfer \$1.2 million of the 2016-17 operating fund surplus to the Debt Service Fund. Technically, this represents the amount of "Classroom Trust Funds" received as part of state Foundation Formula payments during the year, which the state allows Districts to credit to either the operating or the Debt Service fund at the Districts' option. Such a transfer not only resolves the cash flow issue but (when combined with maintaining the current debt service levy at \$.5699) has the added benefit of positioning the district to have a significant amount of no-tax-increase bonding capacity available much sooner (in 2018) than would otherwise be the case (2028).

RECOMMENDED BOARD ACTION....for the 2016-17 fiscal year, that the Board of Education increase the Debt Service Fund Line 102 Interest and Fees budget by \$5,000 and authorize the transfer of \$1,200,000 of Classroom Trust Funds from the operating fund to the Debt Service Fund.