



2013 and 2014 Budget Update

**Board Committee Meeting
November 12, 2013**



Our Reduction Work Must Continue to Ensure Long-Term Fiscal Sustainability

	2013 est.	2014 est.	2015 est.	2016 est.	2017 est.
Revenue (Millions) (a) (b)	\$504.66	\$510.88	\$516.23	\$521.68	\$524.77
Operating Expenditures (c)	\$501.96	\$529.15	\$555.64	\$571.31	\$581.66
Operating Deficit	2.70	(\$18.27)	(\$39.41)	(\$49.63)	(\$56.89)
Beginning Fund Balance	\$85.86	\$88.56	\$70.29	\$30.88	(\$18.76)
Budgeted Year-end Fund Balance	\$88.56	\$70.29	\$30.88	(\$18.76)	(\$75.64)
Fund Balance Compliance	Yes	Yes	Yes	No	No
Minimum Fund Balance per Board Policy #721 (d)	\$25.10	\$26.46	\$27.78	\$28.57	\$29.08

Funds required to comply with Fund Balance Policy

	\$43.83	\$3.10	(\$47.32)(e)	(\$104.73)
--	----------------	---------------	---------------------	-------------------

Notes:

- (a) Revenues from Real Estate Tax, Earned Income Tax, and Basic Education Subsidy are projected to be flat
 - (b) Revenue increases can be attributed to Retirement reimbursement from the State
 - (c) Increasing costs - retirement, health care, salaries
 - (d) Requires 5% of current year's budgeted operating expenditures
 - (e) Assumes previous year fund balance is not restored to 5%
- Projections as of November 5, 2012



Analysis of Major Changes in 2013

2013 Adopted Budget vs. 2013 Projected Final

- Earned Income Revenue
- Salaries & Benefits
- Charter School Payments
- Budgetary Reserve
- Real Estate Revenue



Where we are as of November 12, 2013 on 2014 General Fund and Capital Budgets

District's budget is on a calendar year (Jan. 1 - Dec. 31)

- 1. Summary of the 2014 Budget**
- 2. Financial and Economic Budget Drivers**
- 3. Revenues**
- 4. Expenditures**
- 5. Conclusion**



1

Summary of Proposed 2014 Budget



The District's Budget is Composed of Two Parts

Governmental Funds

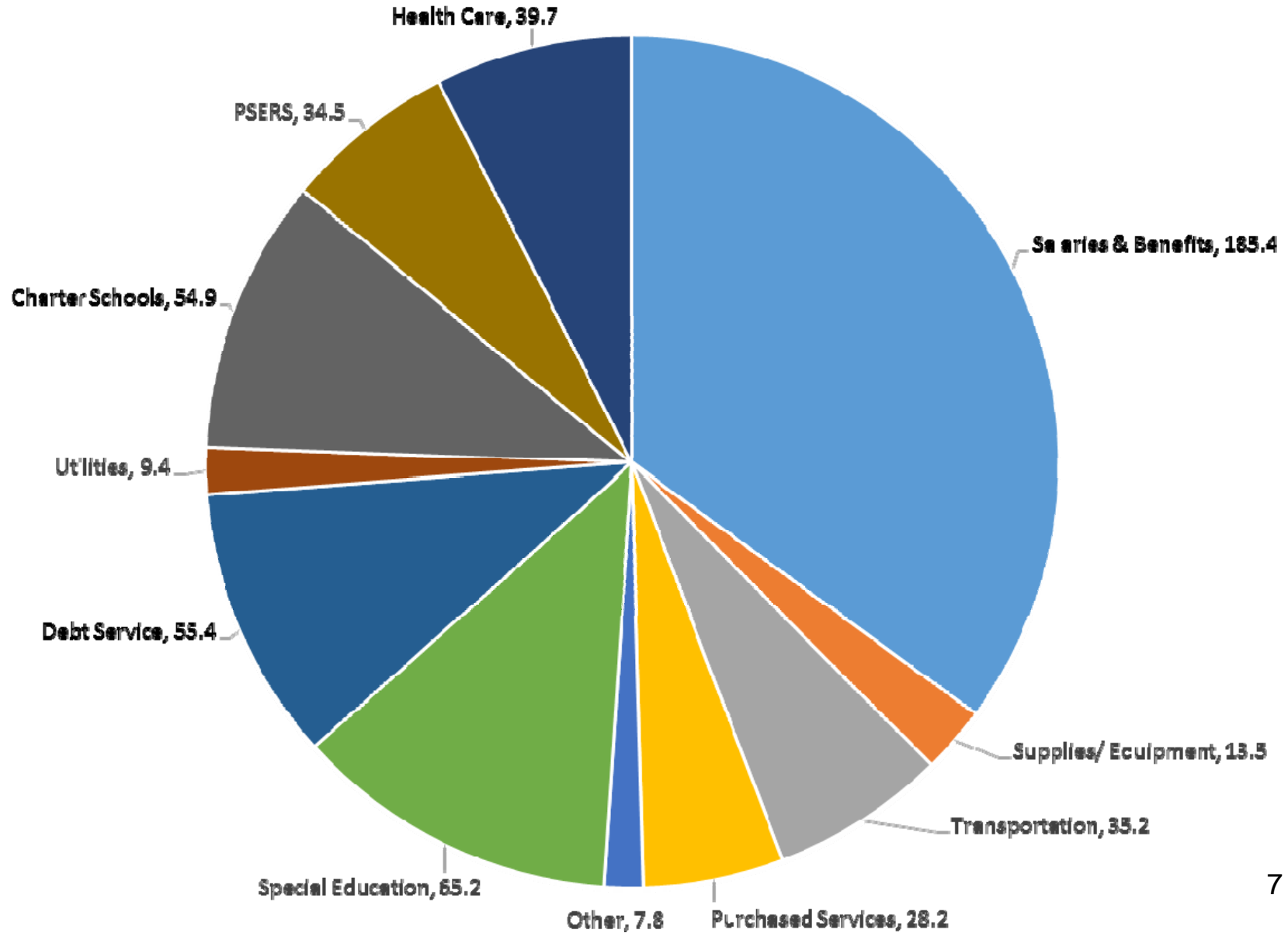
- Calendar Year Budget Cycle (Jan. 1 – Dec. 31)
- Flexible Uses
- Examples
 - General Fund
 - Capital Projects
 - Food Service

Supplemental Funds

- Fiscal Year Cycle (Jul. 1 – Jun. 30)
- Restricted Uses
- Examples
 - Title 1
 - IDEA
 - Head Start
 - Perkins
 - TIF
 - BMGF
 - Fund for Excellence

2014 General Fund Budget Overview

Proposed 2014 General Fund Budget of \$529.2 Million





Proposed 2014 District General Fund Budget

- Expenditures for 2014 are budgeted at **\$529.2 million**:
 - Represents a **1.4 % increase** from 2013 adopted budget
 - Includes an operating deficit of **\$18.3 million** in 2014
- Adheres to Board's minimum **5 percent fund balance policy** for general fund through 2014 based on assumptions to date – required fund balance of **\$26.4 million**
- Proposed Capital budget for 2014 of **\$15.0 million**
 - 2013 Capital budget was **\$14.1 million**



Budget Assumptions

Revenue

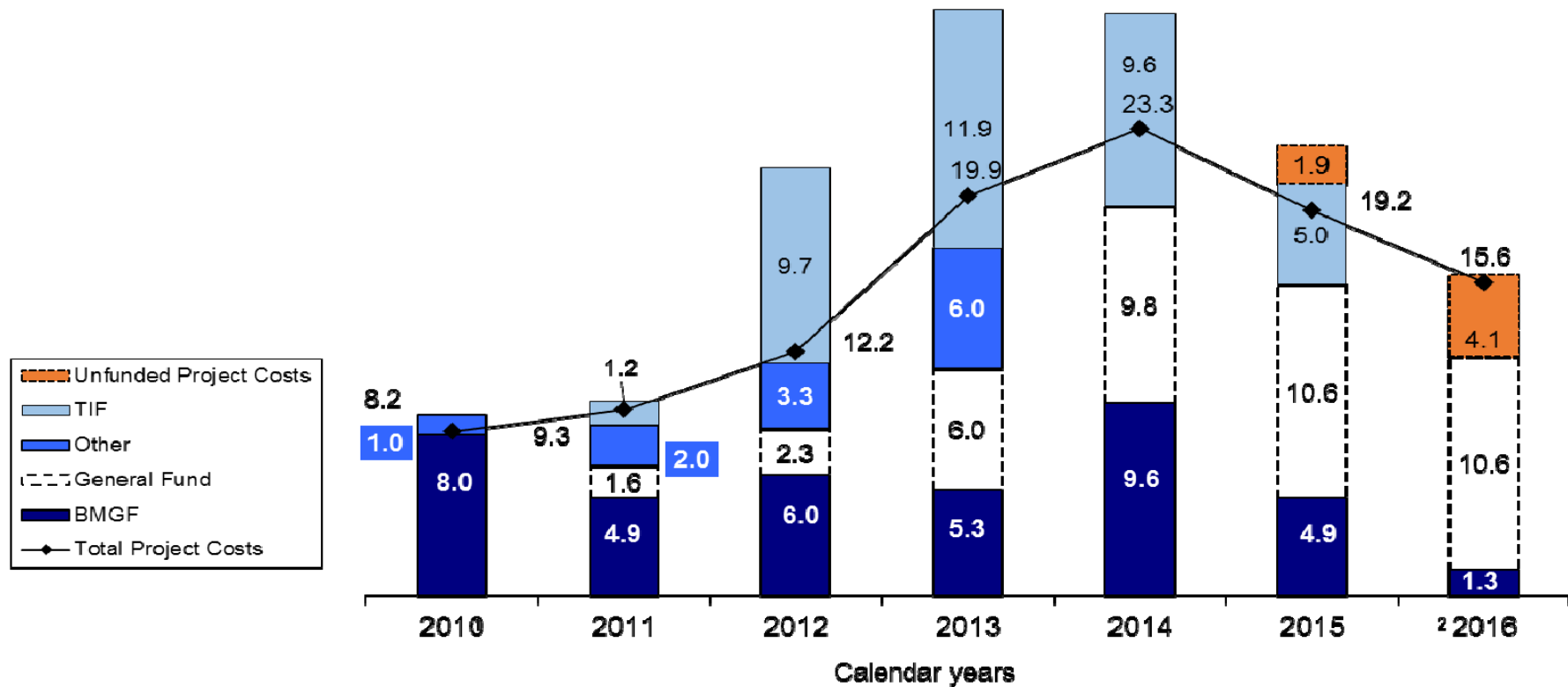
- Flat Real Estate Revenue
- Increase in Earned Income Revenue (1.7% growth)
- Flat Basic Education Funding
- Stable enrollment

Expenditures

- Stable workforce
- Increasing retirement, health care, utility and transportation cost
- Increased charter school costs
- Continuation of Effective Teaching work

Projected Empowering Effective Teaching Project Costs and Funding Sources

Projected EET project costs and funding sources
\$ millions



1 Includes December 2009

2 Includes the full year of 2016, although the grant period extends through June 2016

*Note: The General Fund costs are included in the District's multiyear forecast, though the District remains at a deficit.



2

Financial and Economic Budget Drivers

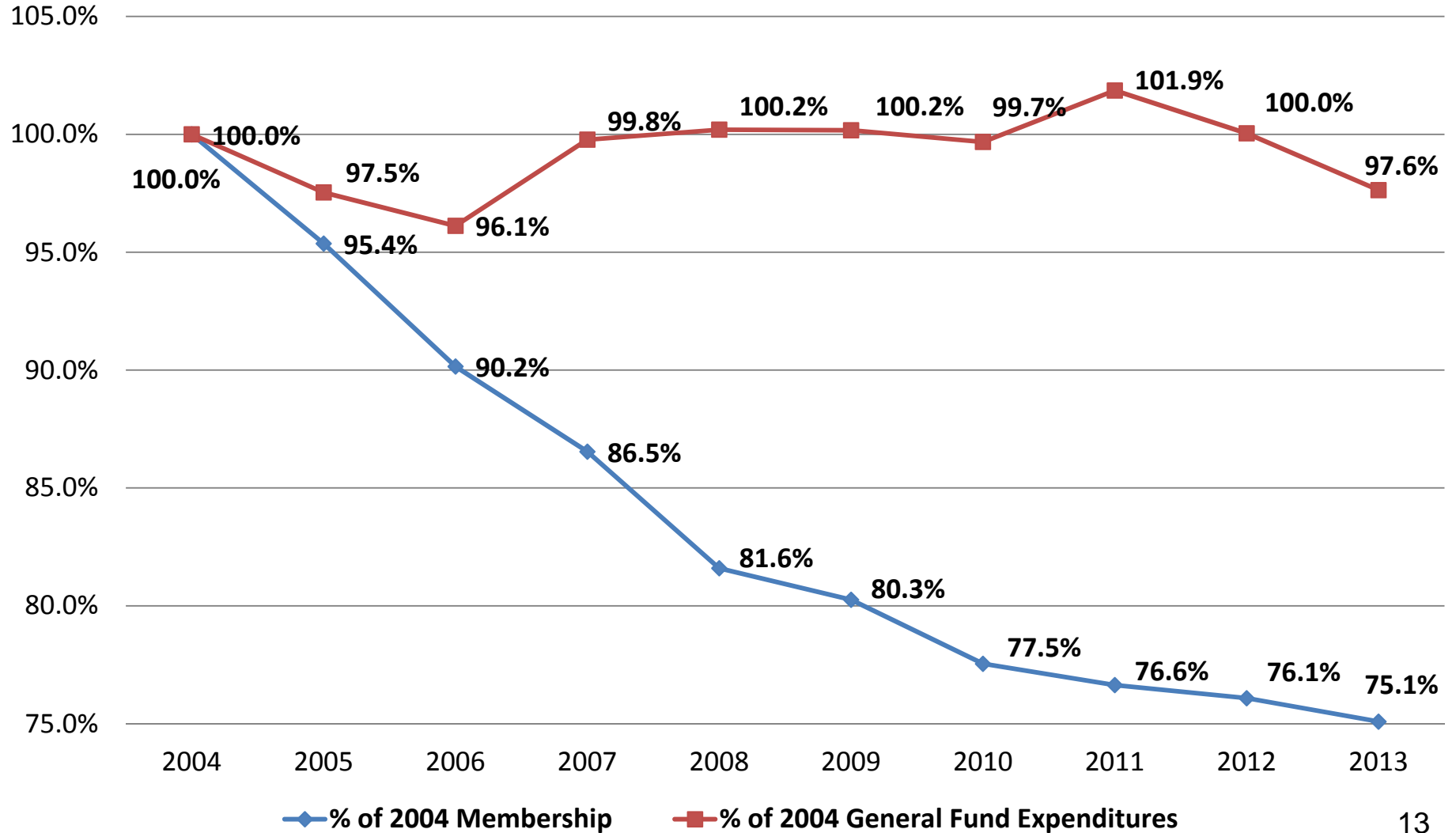


Our problem is complex. We face many challenges at the same time.

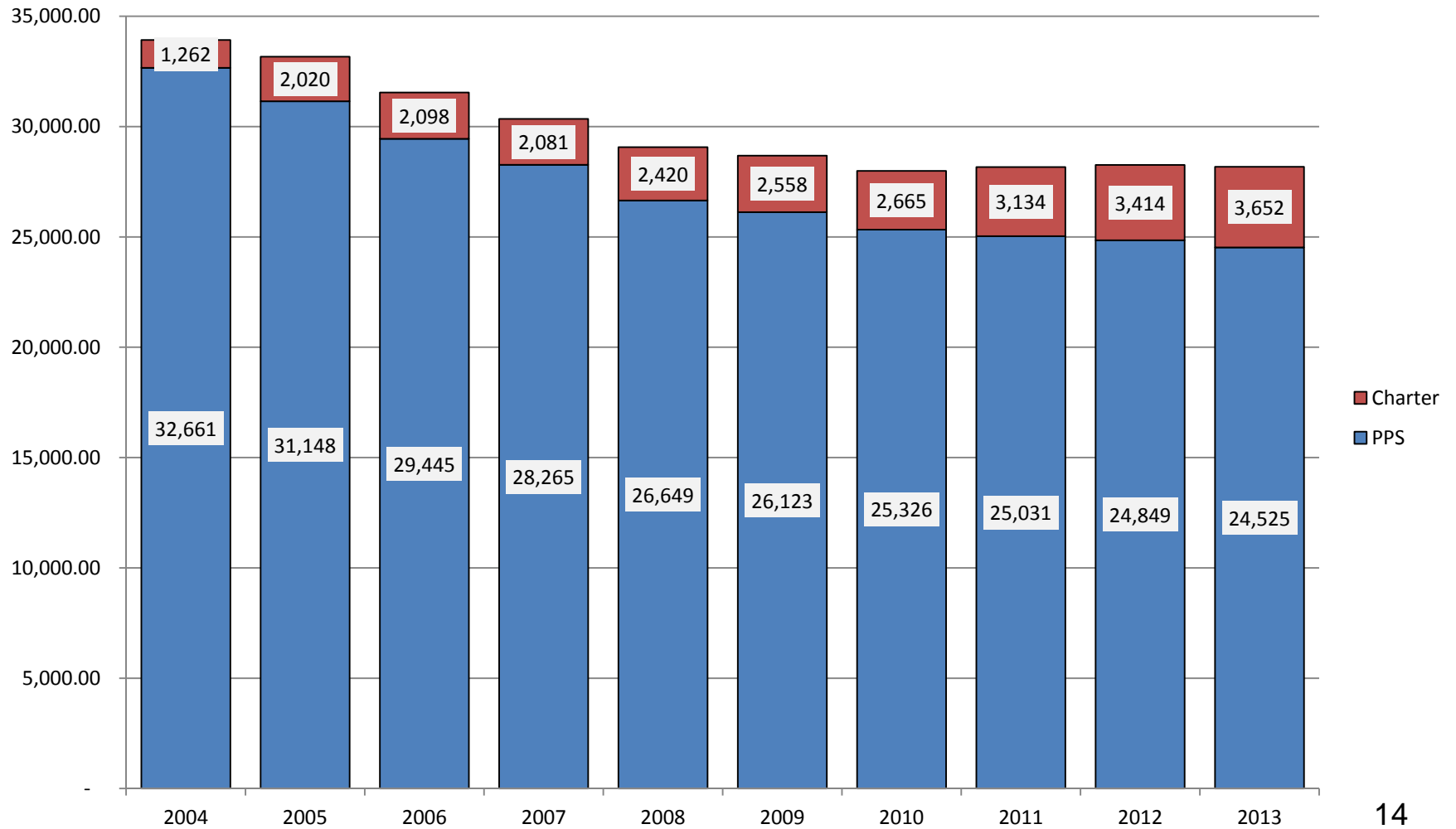
- **Uncertain federal and state funding**
 - **Sequestration – Automatic cuts to discretionary Federal programs over the next decade**
 - **Basic Education Subsidy – Change in Allocation Formula**
- **Student Enrollment Decline**
- **Increase in Charter Schools**
- **Rising cost of retirement, utilities, transportation, health care, and salaries**
- **Federal Health Care Law**

Expenditures Not Aligned to Declining Enrollment

Comparing Student Membership to Total Expenditures : 2004 - 2013
[Baseline Level 2004 = 100%]



Student population is declining while Charter enrollment is growing





Six Main Reasons for Cost Increases

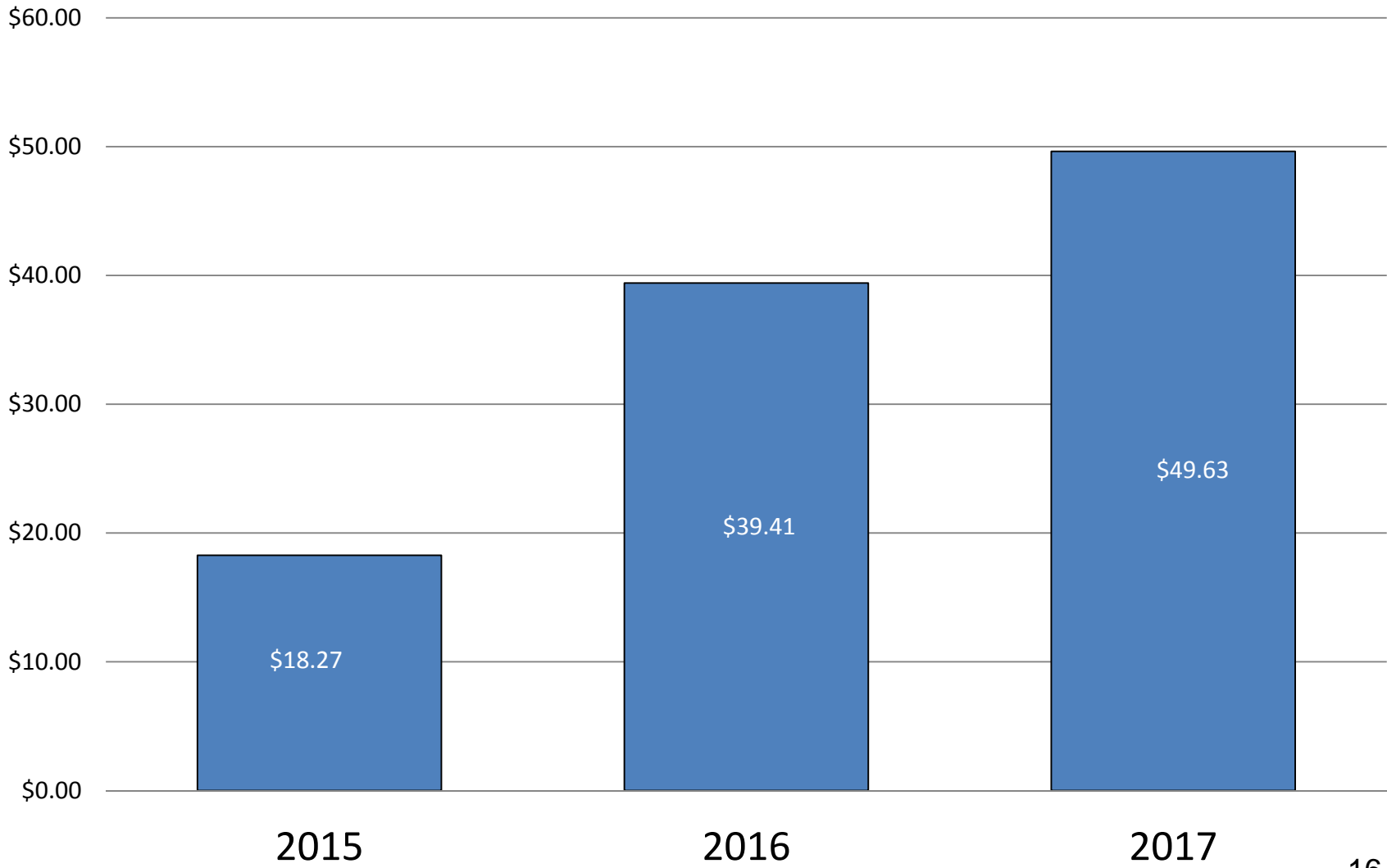
- Prior Year Deficit
- Salaries
- Health Care
- Net PSERS Increase
- Transportation, Utilities, Etc.
- Charter Schools



Prior Year Deficit

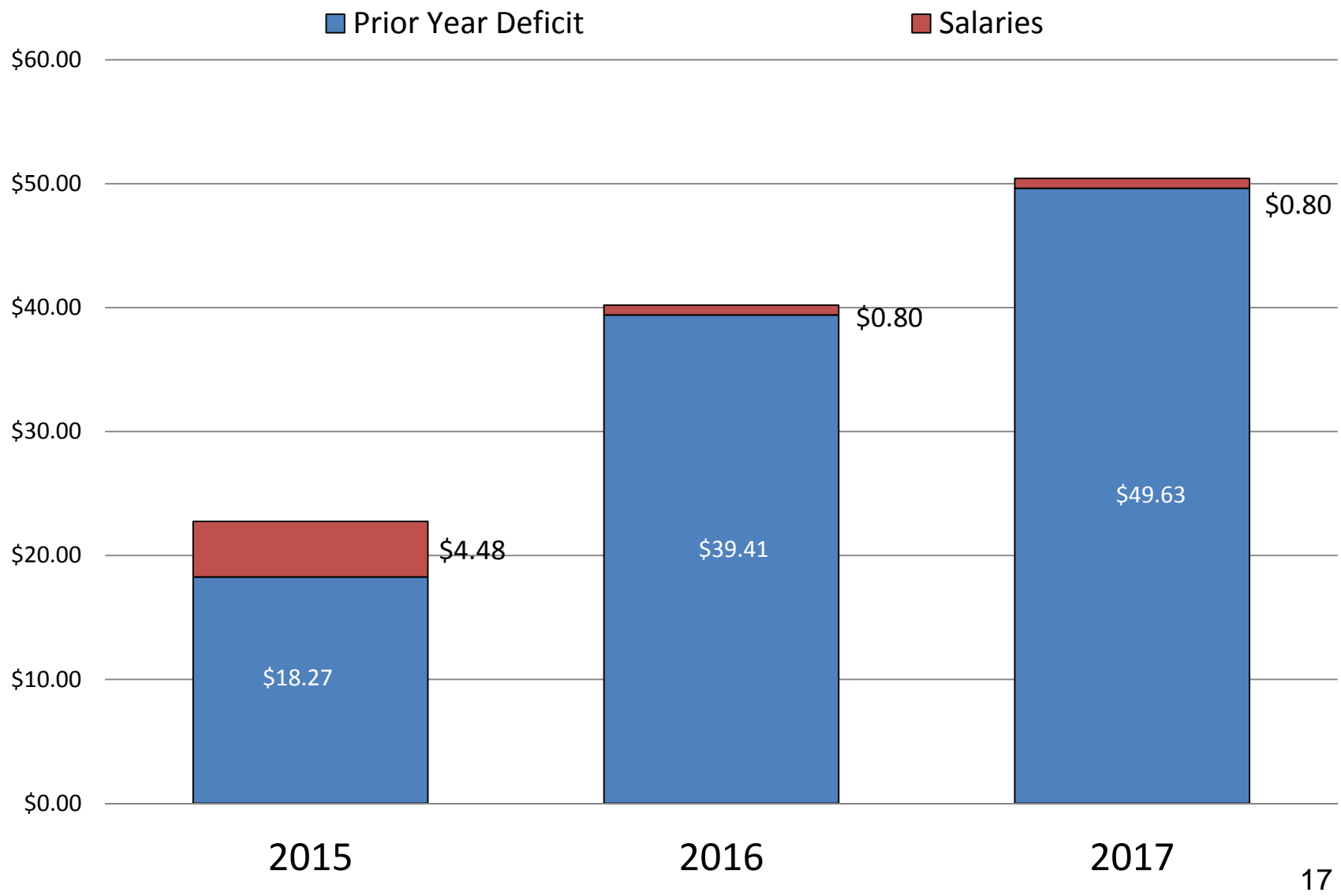
(values in millions)

■ Prior Year Deficit



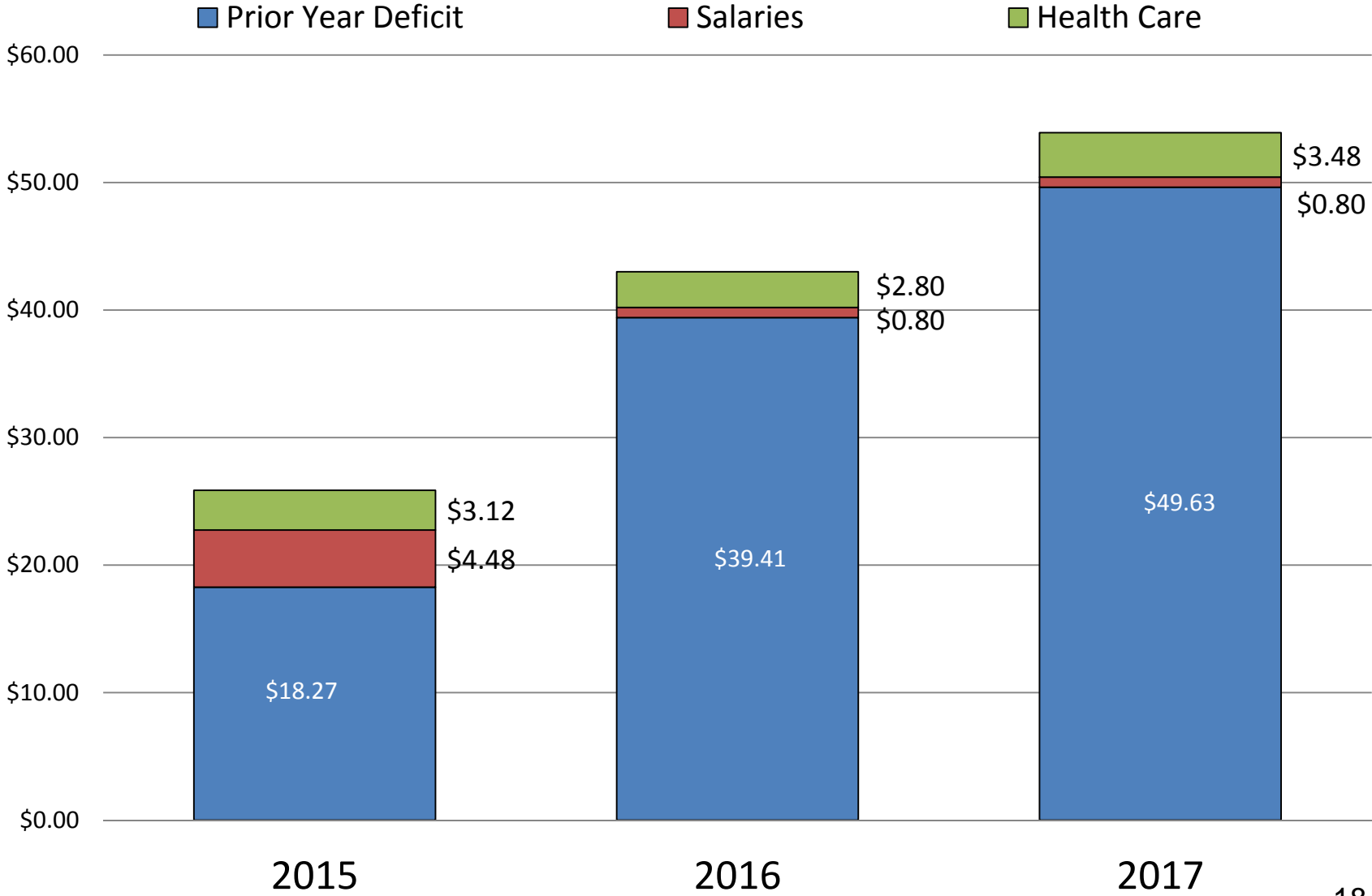
Salaries

(values in millions)



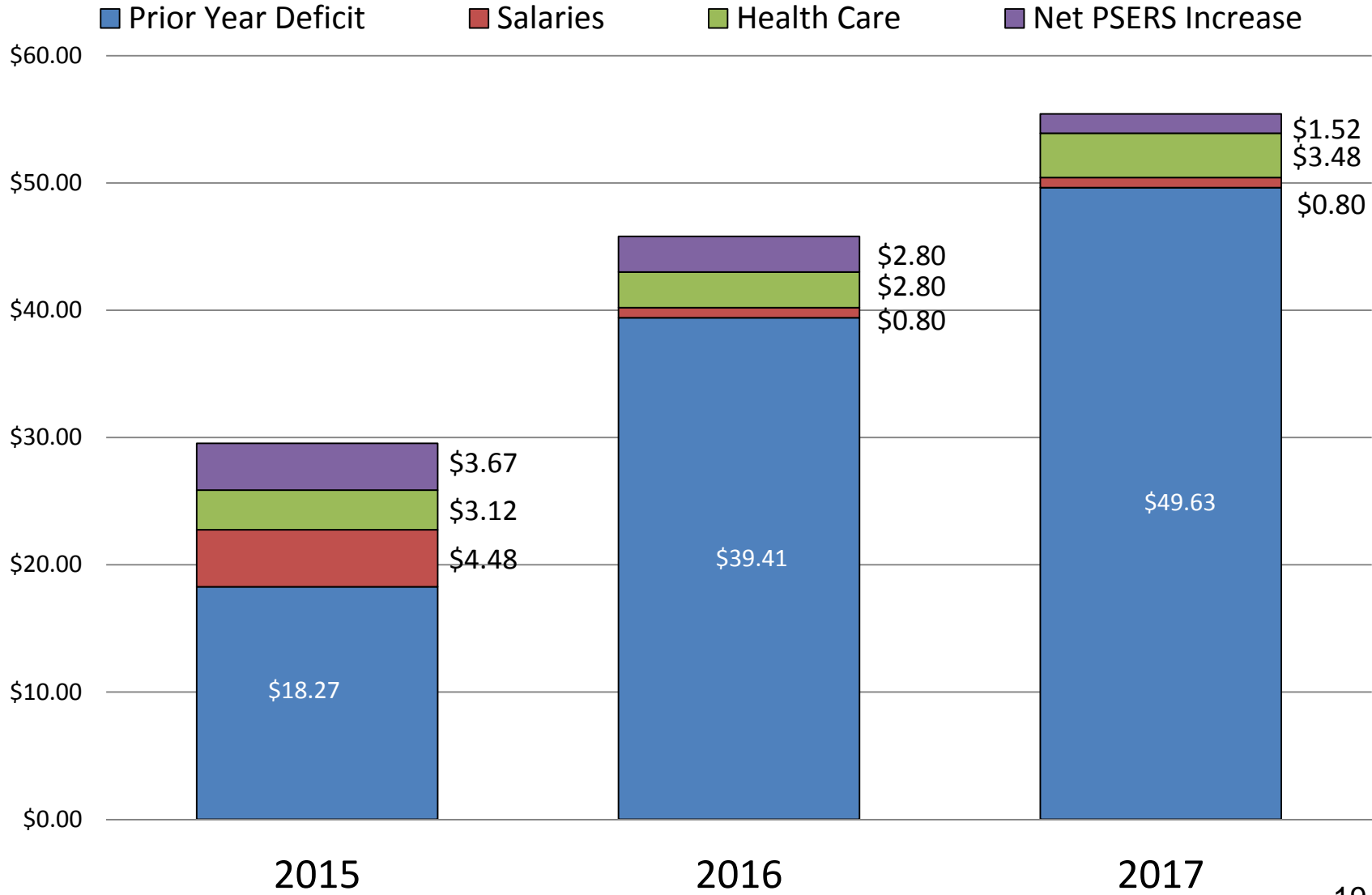
Health Care

(values in millions)

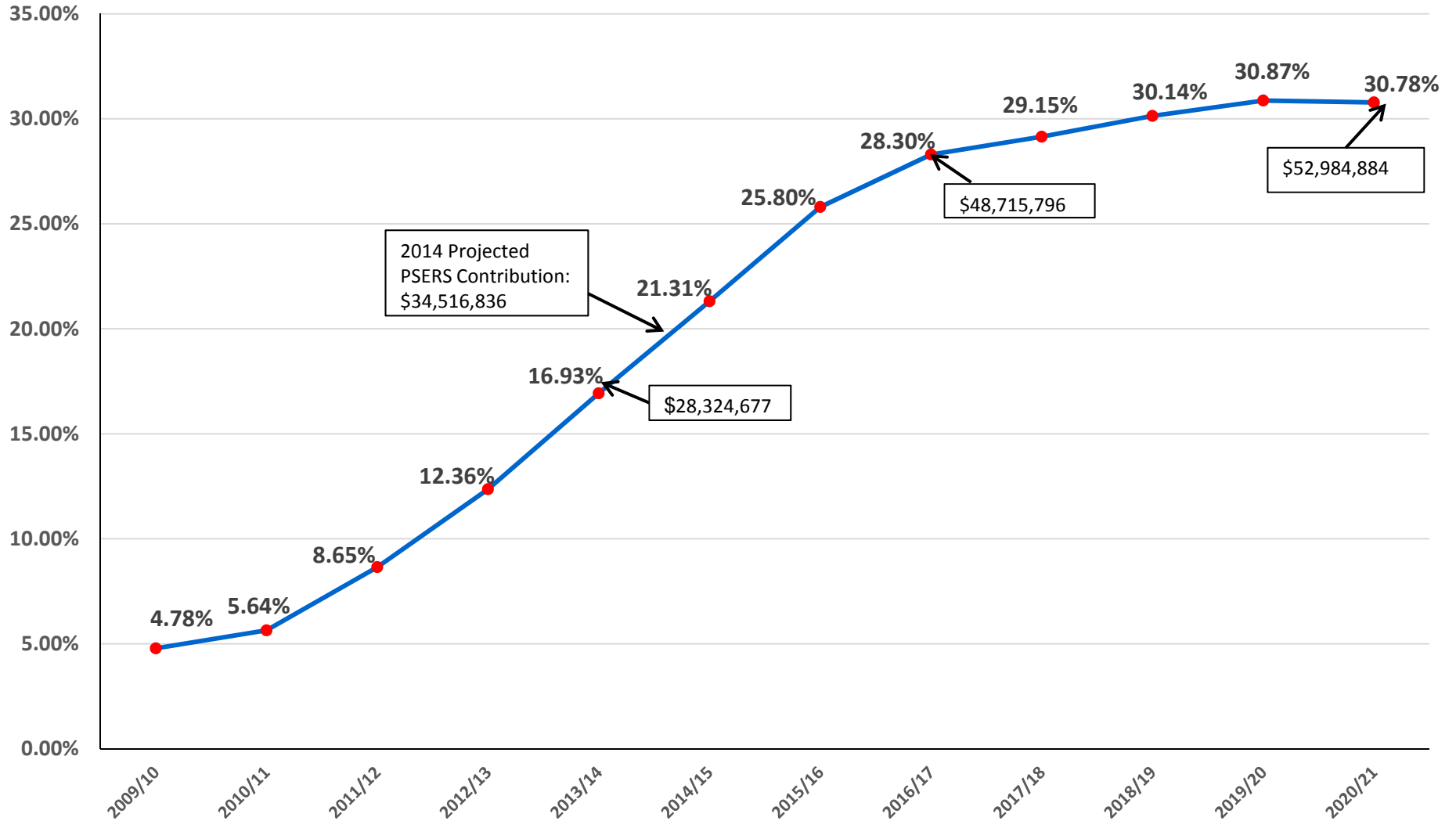


Net PSERS Increase

(values in millions)



PSERS Employer Contribution Rate Increases

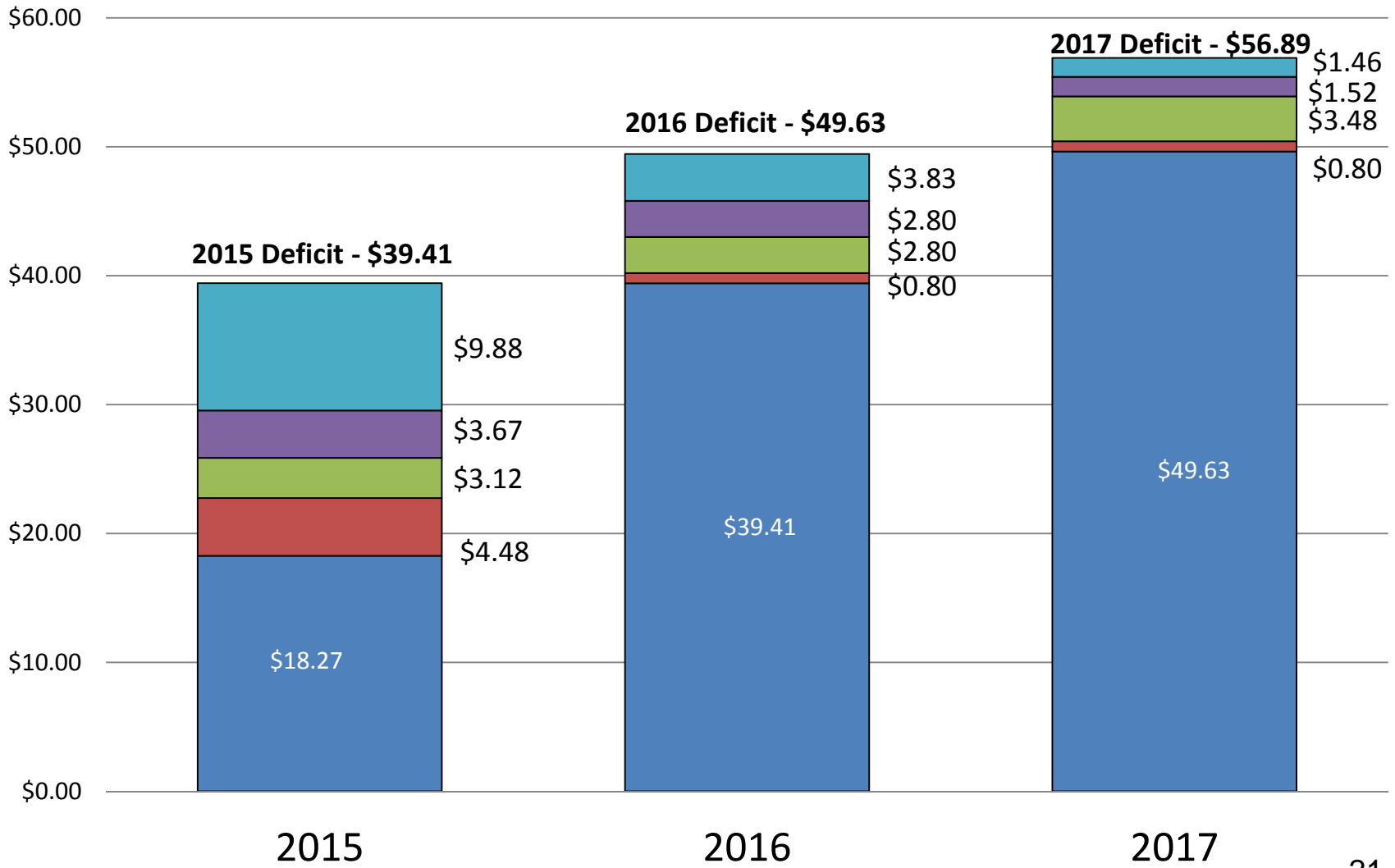


*A stable workforce was assumed when calculating the projected PSERS expenditures.

Transportation, Utilities, Etc.

(values in millions)

■ Prior Year Deficit
 ■ Salaries
 ■ Health Care
 ■ Net PSERS Increase
 ■ Transportation, Utilities, Etc.





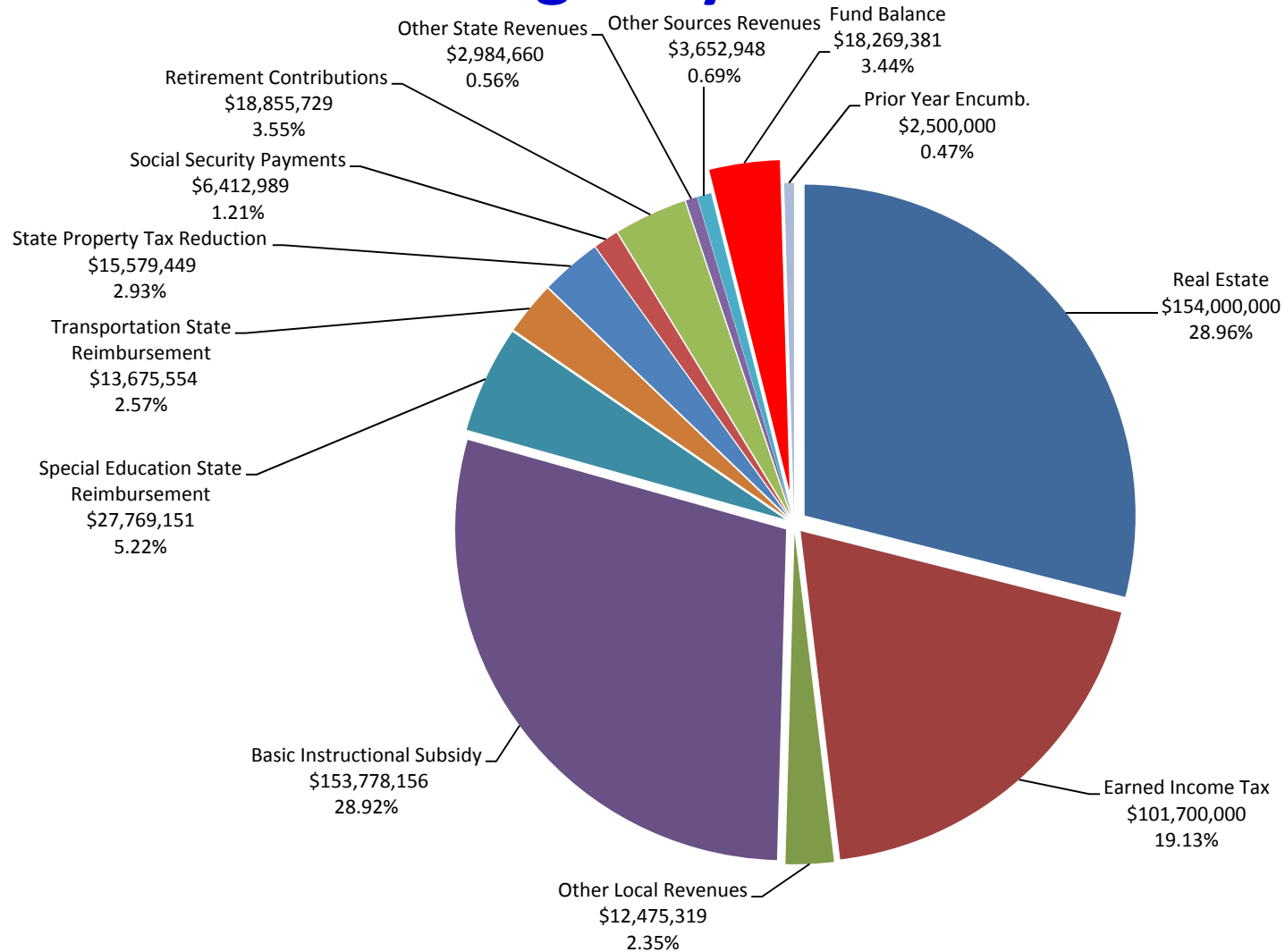
3 General Fund Revenues



Real Estate Reassessments

- Real Estate Reassessment appeals have resulted in lower collections to date than anticipated. District projections based on year-to-date collections have revised the expected revenue down from \$164.3 Million to \$154.0 Million. This number may continue to decline.
- The District is required to set its millage rate for 2014 and Homestead Exemption from Gaming Revenues for 2014 based on the certified property value assessments by December 31, 2013.

2014 Budget by Revenue Source



Total Revenue	\$529,153,337
Prior Encumbrances	\$ 2,500,000
Deficit	\$ 18,269,381



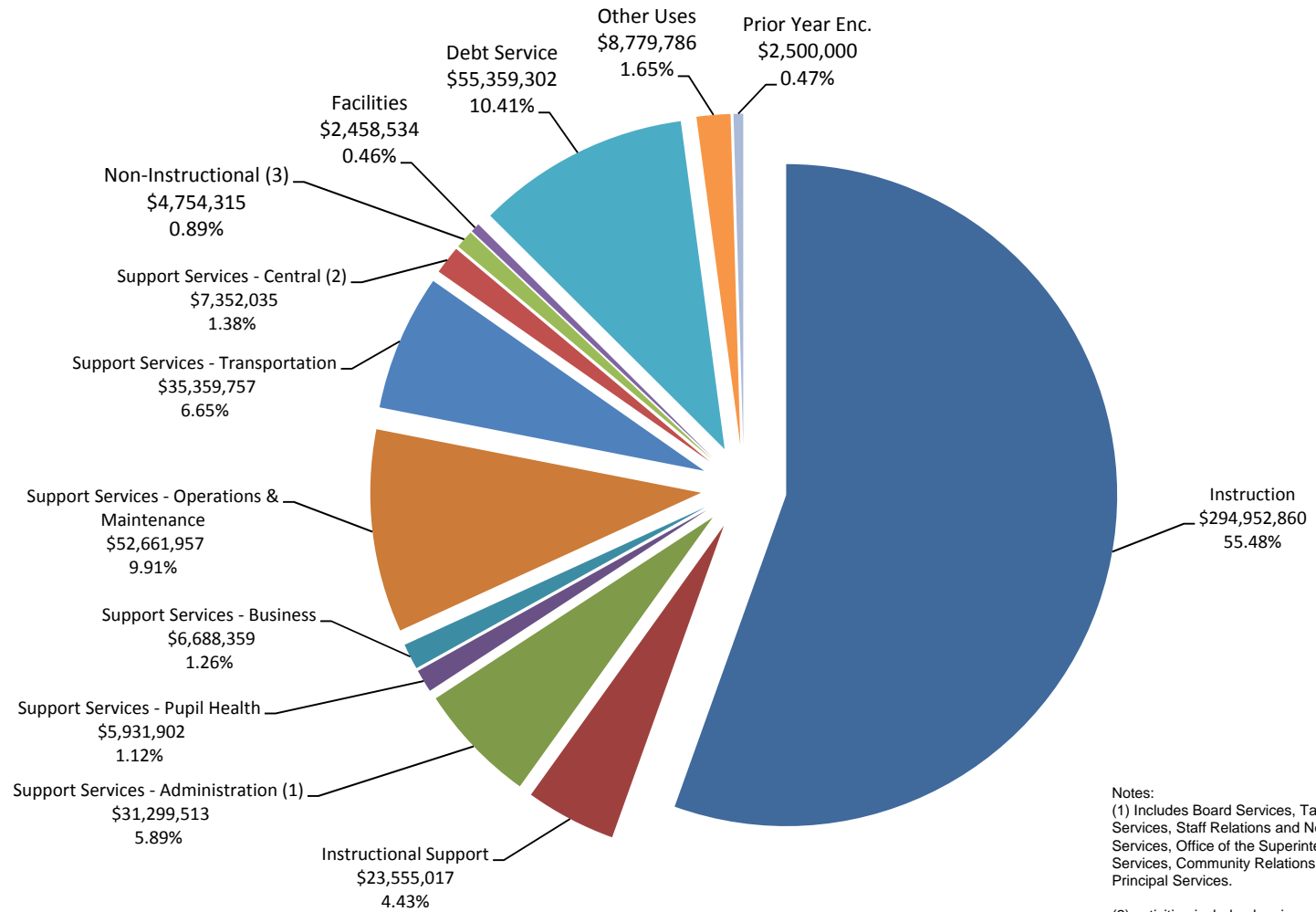
4 General Fund Expenditures



What are functions and objects?

- A function is a 4-digit code that describes that activity or program that an expenditure is supporting (i.e. Instruction, Administration)
- An object is a 3-digit code that describes the service or item that is being purchased (Salaries & Benefits, Supplies)

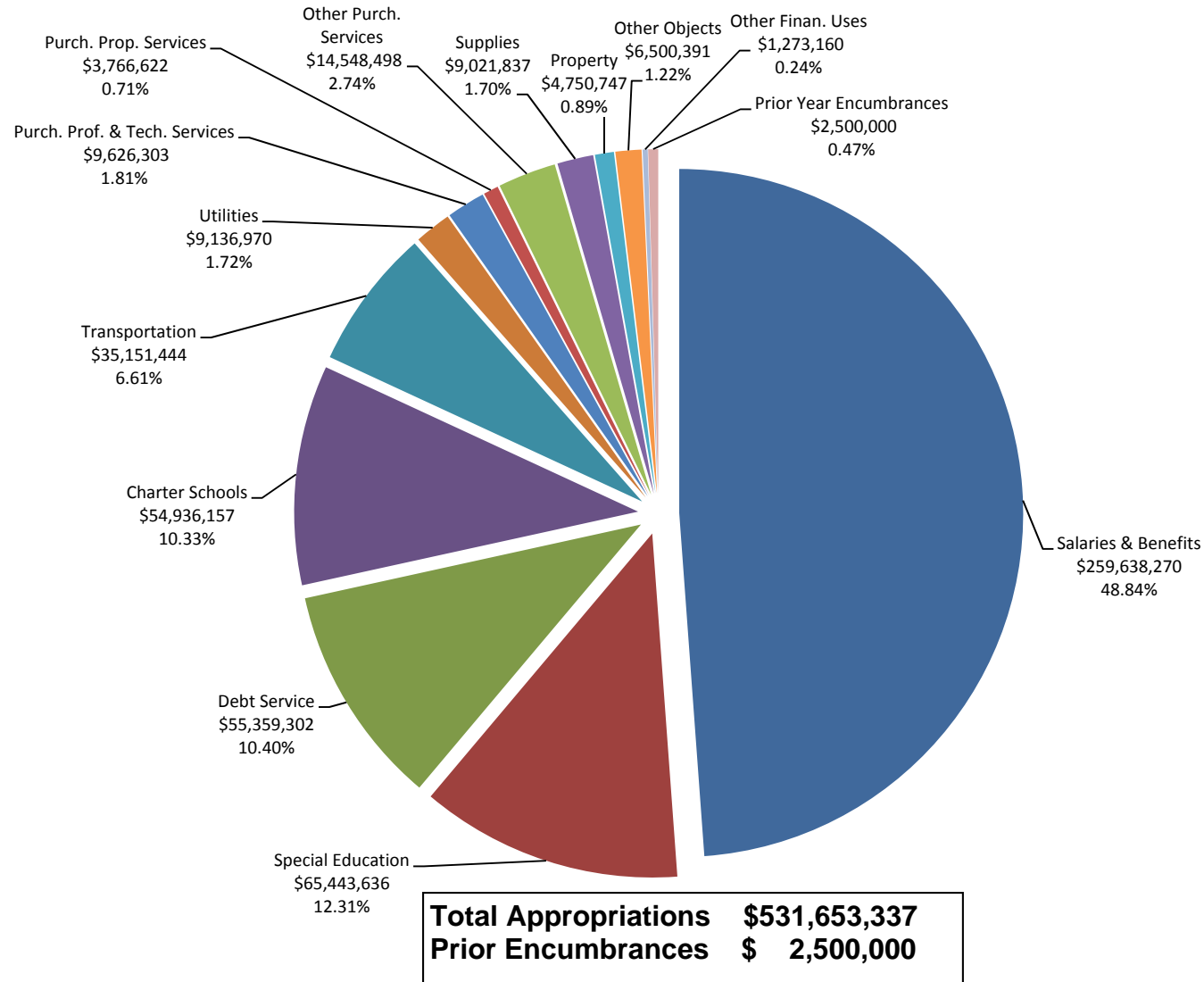
2014 General Fund Budget By Function



Total Appropriations	\$529,153,337
Prior Encumbrances	\$ 2,500,000

Notes:
 (1) Includes Board Services, Tax Collection and Assessment Services, Staff Relations and Negotiations Services, Legal Services, Office of the Superintendent (Deputy/Assistants) Services, Community Relations Services and Office of the Principal Services.
 (2) activities include planning, research, development, evaluation, information, staff and data processing services.
 (3) activities include student activities and athletics

2014 General Fund Budget by Major Object



2014 Capital Budget Summary

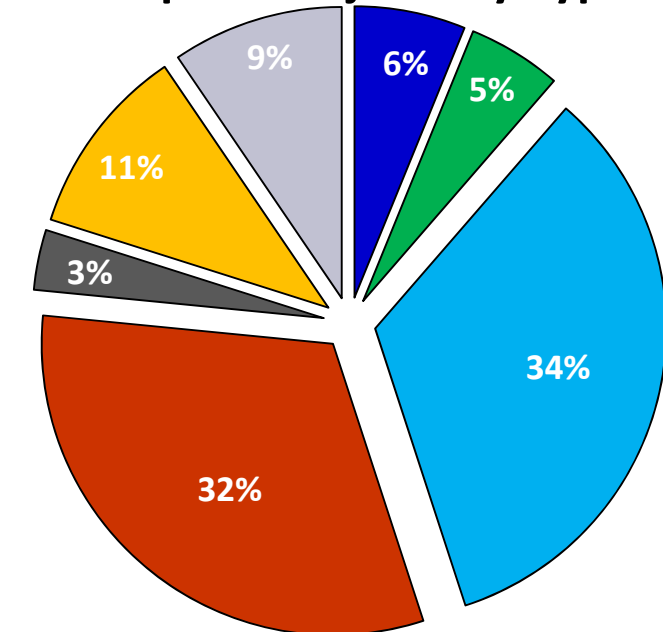
Proposed capital budget: \$15.0 million

Summary of significant capital projects planned for 2014 and 2015:

- **Allerdice Chemistry Lab Renovation**
- **Beechwood Elevator Installation**
- **Linden Elevator Installation**
- **Montessori Elevator Installation**
- **Whittier Elevator Installation**

The proposed capital budget is focused on building maintenance.

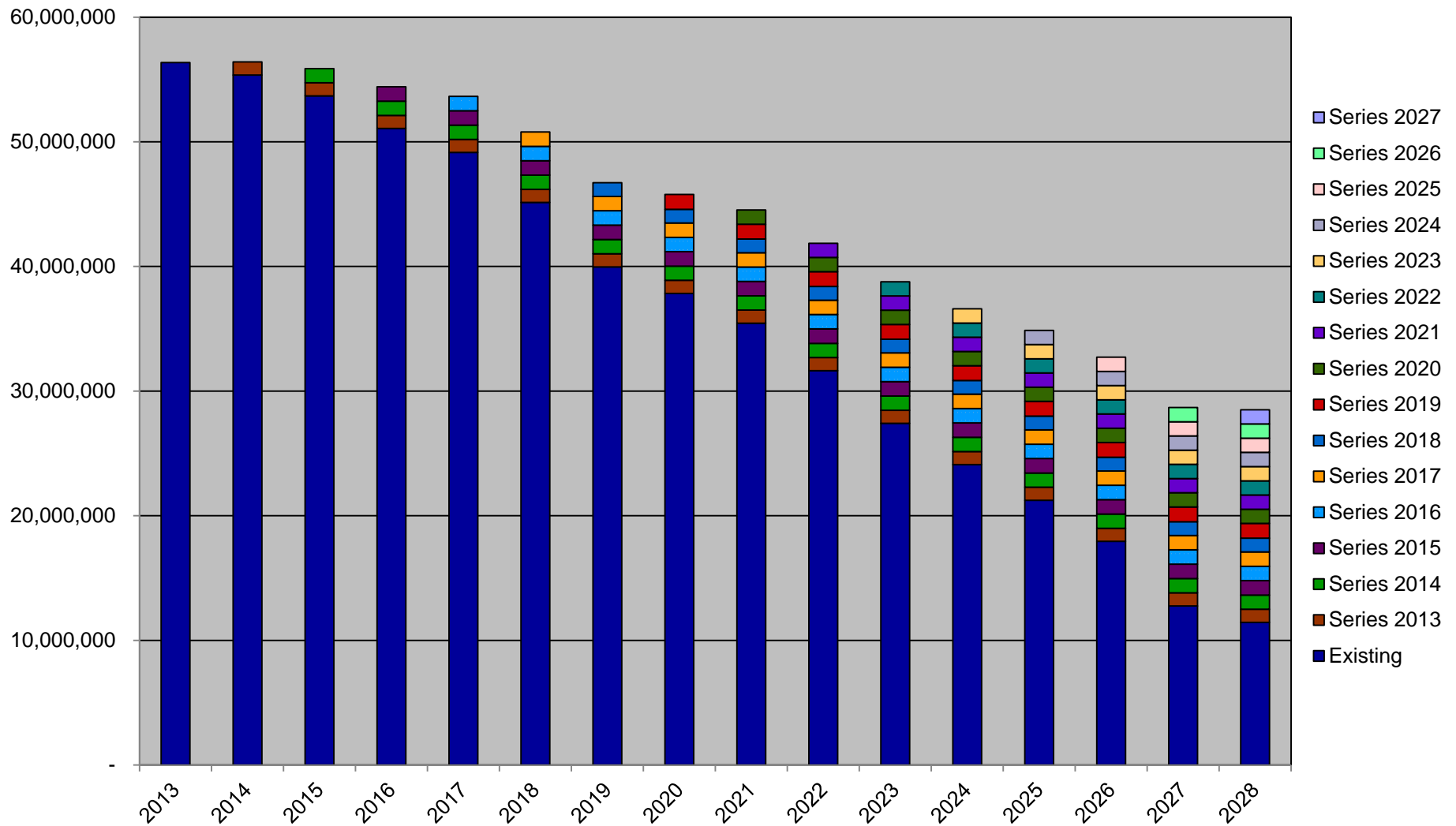
Capital Projects by Type



- **Grounds Improvements**
- **Mechanical Systems**
- **Electrical Systems**
- **Building Interior**
- **Building Exterior**

15 year Debt Service Projection

(Assumes a maximum of \$15 million in borrowing annually)



Total Outstanding Debt = \$417,977,177



2014 General Fund Budget Adoption Timeline

- **May 29, 2013** Board certified no tax increase beyond Act 1 index
- **October 21, 2013** Regular Public Hearing
- **November 12, 2013** Board Committee Meeting
- **November 13, 2013** Release of Preliminary 2014 Budget
- **December 11, 2013** Agenda Review
- **December 18, 2013** Regular Legislative Meeting - 2014 Budget Adoption



5 Conclusion

General Fund Financial Summary 2013 - 2017

	2013 est.	2014 est.	2015 est.	2016 est.	2017 est.
Revenue (Millions) (a) (b)	\$504.66	\$510.88	\$516.23	\$521.68	\$524.77
Operating Expenditures (c)	\$501.96	\$529.15	\$555.64	\$571.31	\$581.66
Operating Deficit	2.70	(\$18.27)	(\$39.41)	(\$49.63)	(\$56.89)
Beginning Fund Balance	\$85.86	\$88.56	\$70.29	\$30.88	(\$18.76)
Budgeted Year-end Fund Balance	\$88.56	\$70.29	\$30.88	(\$18.76)	(\$75.64)
Fund Balance Compliance	Yes	Yes	Yes	No	No
Minimum Fund Balance per Board Policy #721 (d)	\$25.10	\$26.46	\$27.78	\$28.57	\$29.08

Funds required to comply with Fund Balance Policy

\$43.83

\$3.10

(\$47.32)(e)

(\$104.73)

Notes:

(a) Revenues from Real Estate Tax, Earned Income Tax, and Basic Education Subsidy are projected to be flat

(b) Revenue increases can be attributed to Retirement reimbursement from the State

(c) Increasing costs - retirement, health care, salaries

(d) Requires 5% of current year's budgeted operating expenditures

(e) Assumes previous year fund balance is not restored to 5%

Projections as of November 5, 2012

The District Outlook with a 1.7% Increase in Real Estate Revenue for 2014

	2013 est.	2014 est.	2015 est.	2016 est.	2017 est.
Revenue (Millions) (a) (b)	\$504.66	\$513.50	\$518.85	\$524.29	\$527.39
Operating Expenditures (c)	\$501.96	\$529.15	\$555.67	\$571.33	\$581.69
Operating Deficit	2.70	(\$15.67)	(\$36.82)	(\$47.04)	(\$54.29)
Beginning Fund Balance	\$85.86	\$88.56	\$72.89	\$36.07	(\$10.97)
Budgeted Year-end Fund Balance	\$88.56	\$72.89	\$36.07	(\$10.97)	(\$65.27)
Fund Balance Compliance	Yes	Yes	Yes	No	No
Minimum Fund Balance per Board Policy #721 (d)	\$25.10	\$26.46	\$27.78	\$28.57	\$29.08

Funds required to comply with Fund Balance Policy

\$46.43

\$8.28

(\$39.54)(e)

(\$94.35)

Notes:

(a) Revenues from Real Estate Tax, Earned Income Tax, and Basic Education Subsidy are projected to be flat

(b) Revenue increases can be attributed to Retirement reimbursement from the State

(c) Increasing costs - retirement, health care, salaries

(d) Requires 5% of current year's budgeted operating expenditures

(e) Assumes previous year fund balance is not restored to 5%

Projections as of November 5, 2012



Long Term Visioning and Planning

- We can't deliver education the same way we always have.
- A millage increase will help restore lost real estate revenue.
- Change is needed in order for the District to achieve long term fiscal stability and become a District of Choice.
- The district's long-term forecast will continue to improve as reduction options are implemented.