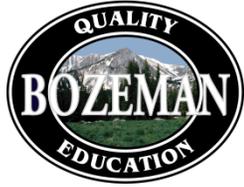


Bozeman Public Schools



2015-16 Adopted Budget

Introductory Section



Bozeman Public Schools

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DATE: August 10, 2015

TO: Board Chair
Members of the Board of Trustees

FROM: Mike Waterman
Director of Business Services

RE: 2015-16 Budget Overview

This document is intended to provide the reader with a high-level overview of the Bozeman School District and its 2015-16 budgets. Like the budget document itself, it is organized into three sections: organizational, financial, and informational.

ORGANIZATIONAL SECTION

Board of Trustees

An eight-member Board of Trustees is responsible for the governance of the District. Board members are elected by the voters of the District and serve overlapping three year terms. The current Board members, the dates their respective terms expire, the total number of years served on the Board, and the member's respective occupation are as follows:

Board Member	Term Expires May,	Total Time Served on Board	Occupation
Wendy Tage, Chair	2018	5.5 years	Homemaker
Andrew Willett, Vice Chair	2016	2.5 years	Attorney
Heide Arneson	2017	6.5 years	Administrative Assistant
Douglas Fischer	2018	Newly Elected	Journalist
Bruce Grubbs	2018	Newly Elected	Nonprofit CEO
Gary Lusin	2017	9.5 years	Physical Therapist
Elizabeth Williamson	2016	2.5 years	Conservation Mapping Consultant
Sandra Wilson	2018	0.5 years	Retired Teacher

Executive Administration

The staff is organized into an operational branch and an instructional branch. A Deputy Superintendent leads each branch, and both Deputy Superintendents report to the Superintendent. Dr. Rob Watson has served as the Bozeman Schools Superintendent since July 1, 2012. Prior to being selected as Superintendent, Dr. Watson served as the Bozeman High School Principal for 3 years. Mr. Steve Johnson, CPA, is the District's Deputy Superintendent Operations and has been employed by the District since 1986. Dr. Marilyn King serves as the District's Deputy Superintendent Instruction. She has worked for the Bozeman School District since 1999.

Long Range Strategic Plan

One of the primary functions the Board and Administrators serve is to develop and implement the District's Long Range Strategic Plan (LRSP). Bozeman Public Schools launched a new strategic planning process in the fall of 2007 to bring more rigor to the goals setting process; to ensure the wants, preferences, and needs of our community are well understood; and to strategically focus our resources. In so doing, the group reviewed and updated existing mission, vision and goal statements for the District. This type of systematic review will be an ongoing element of our strategic planning, evaluation, and budgeting processes.

The LRSP includes a very long-term vision to guide us over the next twenty years. We then established interim five-year goals and identified trends and issues that are likely to have significant impact on achieving those goals. The Board has committed itself to studying and analyzing these issues in a proactive manner to ensure the District is best positioned to deliver on our long-term vision.

The LRSP, which can be accessed [online](#), centers around four Goal Areas:

1. Academic Performance. Each student meets or exceeds the high academic standards necessary for college and career readiness.
2. Operations and Capacity Building. District operations, facilities, and human resources promote an efficient and innovative educational system.
3. Community Engagement and Partnerships. Bozeman Public Schools has created an environment in which all education stakeholders at the local, state, and national level are supportive, engaged, and contribute to successfully educating our students.
4. Student and Staff Safety, Health, and Welfare. Bozeman Public Schools has effective systems in place for students and staff to learn and work in a safe and healthy environment.

With these goals in mind, the trustees and administrators establish specific strategic objectives and action plans each year. Annual reports assess the District's progress toward these goals at the conclusion of each year.

The LRSP is the focal point of the budget development process. Creating a budget that positions the District to meet these goals takes a good deal of time, and the 2015-16 budget has been in the planning stages since August 2014.

Budget Development Process and Timeline

Each fall, the Board of Trustees formalizes a calendar for the development of the ensuing year's budget. The calendar, which changes very little from year to year, establishes deadlines and assigns responsibility for each step in the budget development process. Generally, the budget process begins each fall with enrollment counts and developing a framework for the budget. Each winter, administrators and the District Budget Committee prepare and prioritize additional requests. Final budget limits become known after the annual May election, and in odd-numbered years, the adjournment of the Montana legislature. Over the summer, the Business Office finalizes budgets, receives the taxable values, and prepares the budget for Board approval in August. In compliance with Montana law, the adoption of the final 2015-16 budget occurred August 10, 2015.

Allocation of Human and Financial Resources

Human and financial resources are generally allocated based on the number of students enrolled in a school's attendance area. Management reserves the right to redistribute resources to accommodate enrollment shifts and educational needs within the District in conjunction with the goals specified in the LRSP. Teachers and paraprofessionals are assigned to buildings to meet Montana's accreditation standards and to address goals addressed in the LRSP. Specialized staff, including special education and Title staff, are assigned based on need and program qualification.

FINANCIAL SECTION

Overall, the Bozeman School District's finances remain very healthy. As a testament to this fact, Moody's recently upgraded the Elementary District bond rating to Aa2, in line with the High School rating. Moody's granted the upgrade based on several factors including the District's diverse and growing tax base, the strong institutional presence of Montana State University, healthy financial position with growing reserves, and a manageable debt profile. The District is

pleased with this rating increase not only for the interest savings on our recent bond issue, but because it is indicative of the District and community's overall financial health.

Budget Overview

The State of Montana establishes eleven budgeted funds: accounting units whose spending authority is determined annually by the Board of Trustees. The Bozeman School District uses nine of these eleven budgeted funds. The Districts' spending authority in these budgeted funds is increasing to meet the needs of our growing student population. As the following table shows, the total combined elementary and high school expenditure budgets for all budgeted funds is \$72,266,508, an increase of \$2,347,211 (3.4%) over 2014-15:

	FY2014-15 Budget	FY2015-16 Budget	Change \$	Change %
General	\$ 43,330,523	\$ 45,114,628	\$ 1,784,105	4.1%
Debt Service	7,585,159	7,426,394	-158,765	-2.1%
Retirement	6,100,000	6,760,000	660,000	10.8%
Building Reserve	7,236,289	6,796,973	-439,316	-6.1%
Transportation	2,802,539	3,070,269	267,730	9.6%
Technology	1,734,593	1,816,021	81,428	4.7%
Adult Education	304,074	330,267	26,193	8.6%
Bus Depreciation	500,080	568,744	68,664	13.7%
Tuition	326,040	383,212	57,172	17.5%
Total K-12	<u>\$ 69,919,297</u>	<u>\$ 72,266,508</u>	<u>\$ 2,347,211</u>	<u>3.4%</u>

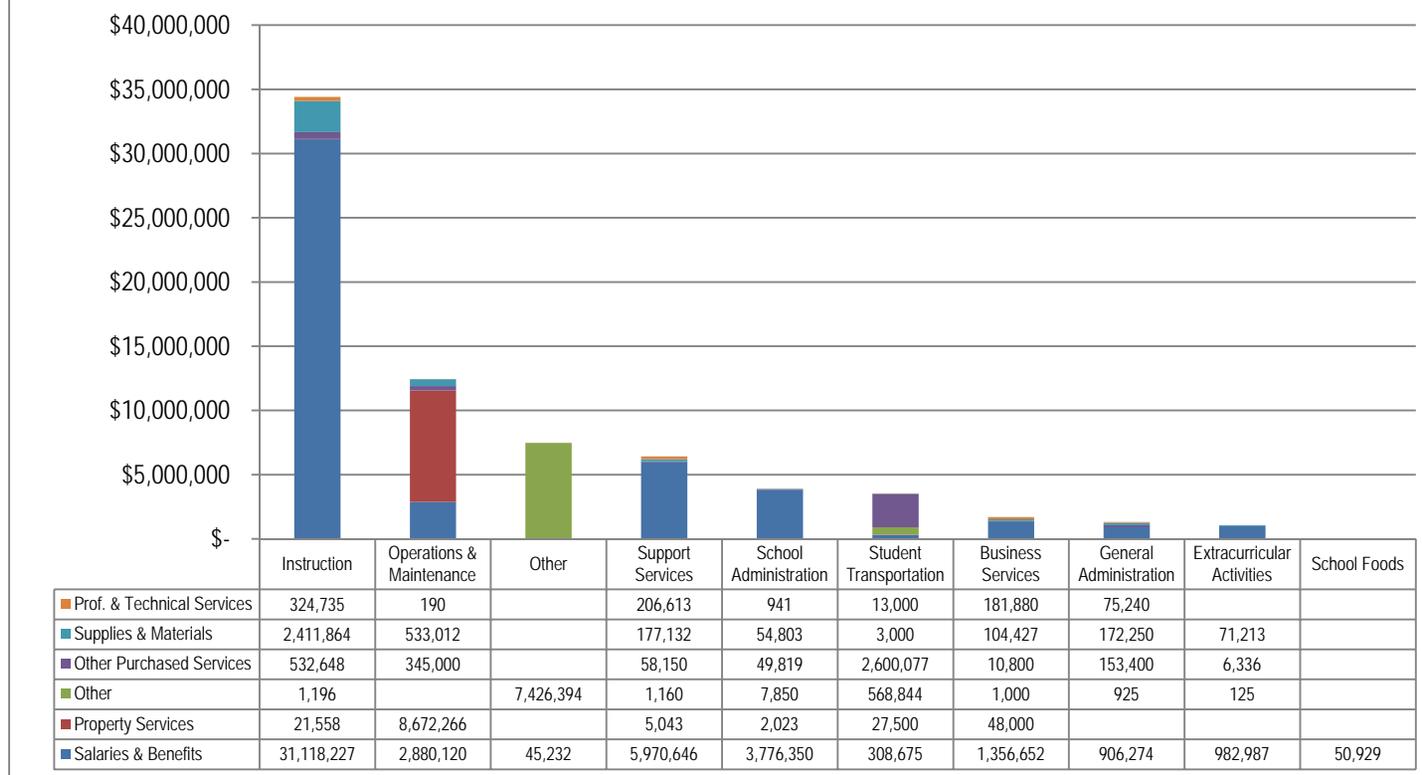
The General Fund increase results from elementary and high school Average Number Belonging ("ANB" - a factor of enrollment) increases of 116 and 11, respectively, as well as funding rate increases approved by the 2015 legislature.

Expenditure Summary

Expenditures in Montana are categorized in several ways, most notably by "function" and "object". *Function* refers to the purpose for which an activity or program exists or is used, while *object* refers to the specific good or service obtained.

Of the \$72,266,508 in total budget, the District plans to spend \$34,410,229 (48%) on Instruction and \$47,396,093 (66%) on Salaries and Benefits – the largest single function and object amounts, respectively. The following graph summarizes total budgeted expenditures by function and object:

Bozeman Public Schools
FY2015-16 Budgeted Expenditures - All Budgeted Funds



The budget document further details these planned expenditures.

Significant Trends, Events, and Initiatives

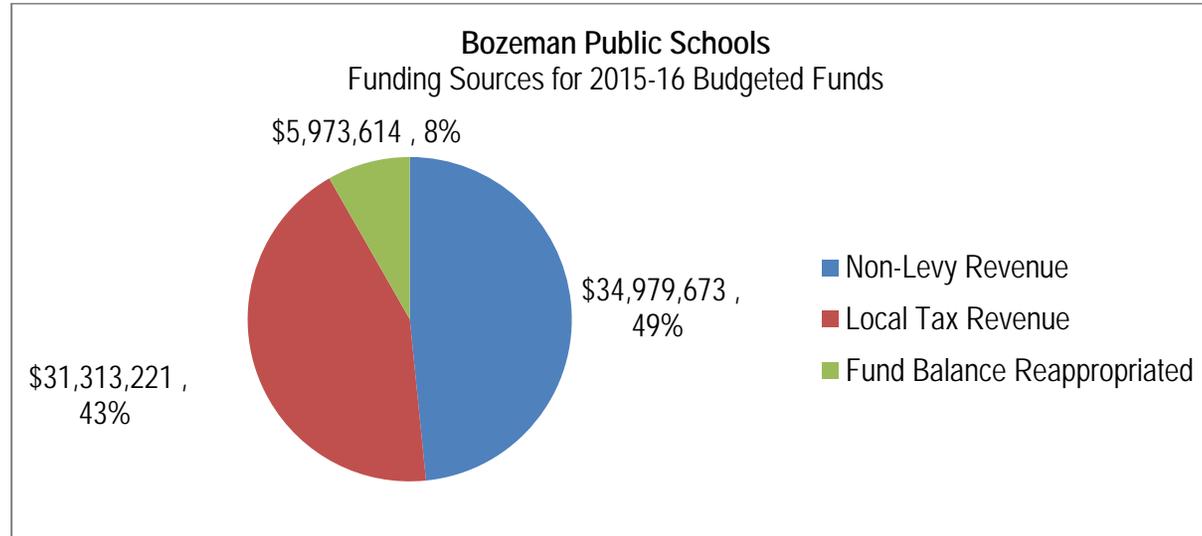
Notable budget changes in FY2015-16 include:

- \$158,765 decrease in the Debt Service Fund. In 2014 and 2015, the Districts refinanced almost \$40 million in existing bond debt to take advantage of lower market interest rates. The refinancings will save taxpayers approximately \$2.7 million over the life of the bonds.
- \$660,000 increase in the Retirement Fund. The Retirement Fund finances District contributions for Social Security, Medicare, Teachers' and Public Employees' Retirement Systems, and Unemployment Insurance. The budgets are increasing to accommodate wage increases due to additional staff and negotiated pay raises, higher retirement contribution rates, and the need to build fund balance and maximize reserves in these funds.

Each budget is explained in detail on the corresponding pages of the Financial Section.

Revenue Summary

Each budget is fully funded by a combination of fund balance remaining from the previous fiscal year (fund balance reappropriated), non-levy revenue, and levied local taxes. The \$72,266,508 in expenditure budgets adopted for 2015-16 will be funded as follows:



The following table summarizes these funding sources for 2015-16 and the prior year:

	2014-15	2015-16	Change
Fund Balance Reappropriated	\$ 5,969,486	\$ 5,973,614	\$ 4,128
Non-Levy Revenue	33,102,353	34,979,673	1,877,320
Local Tax Revenue	30,847,459	31,313,221	465,762
Total	\$69,919,298	\$ 72,266,508	\$ 2,347,210

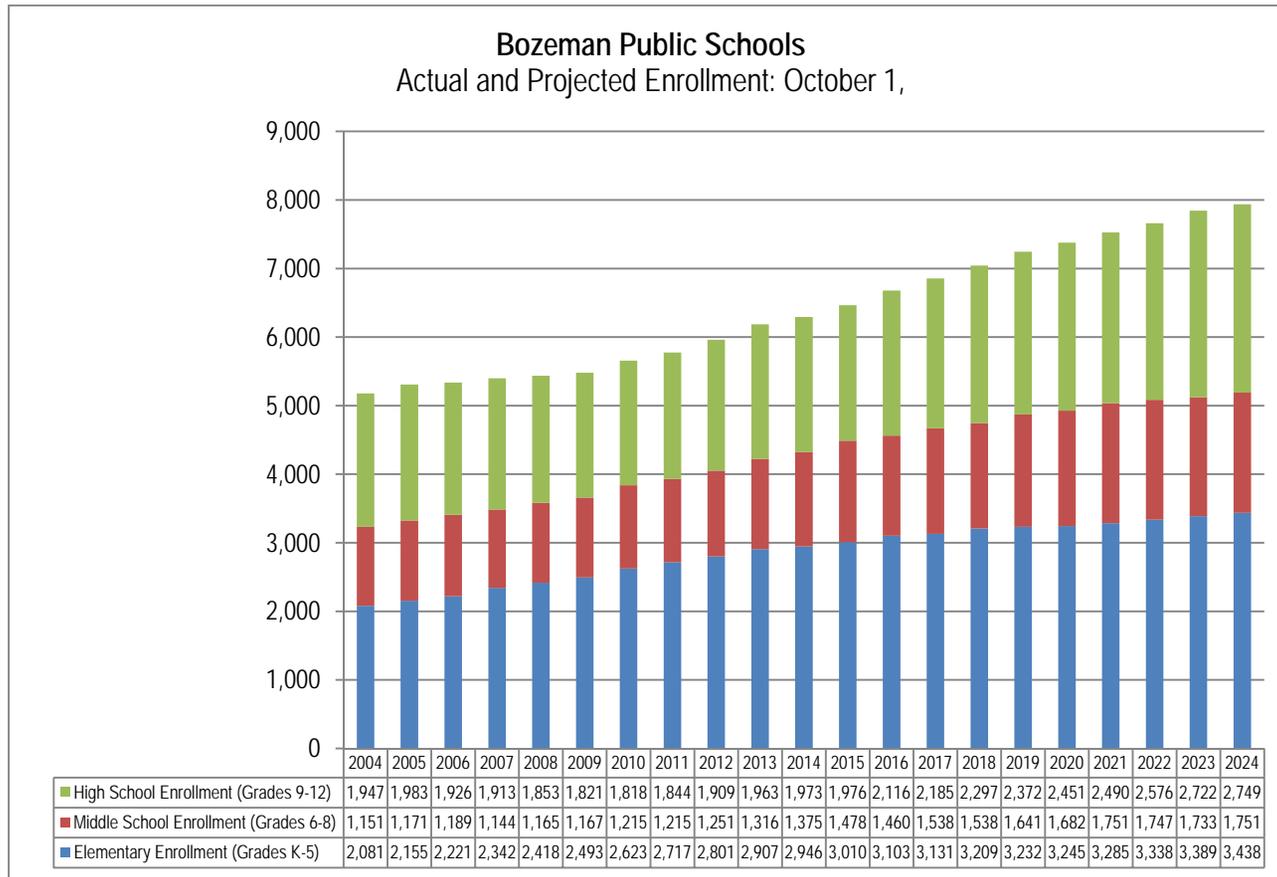
As with the expenditures, the budget document details these revenue sources.

INFORMATIONAL SECTION

This section of the budget document includes information on enrollment, taxation, personnel, and debt.

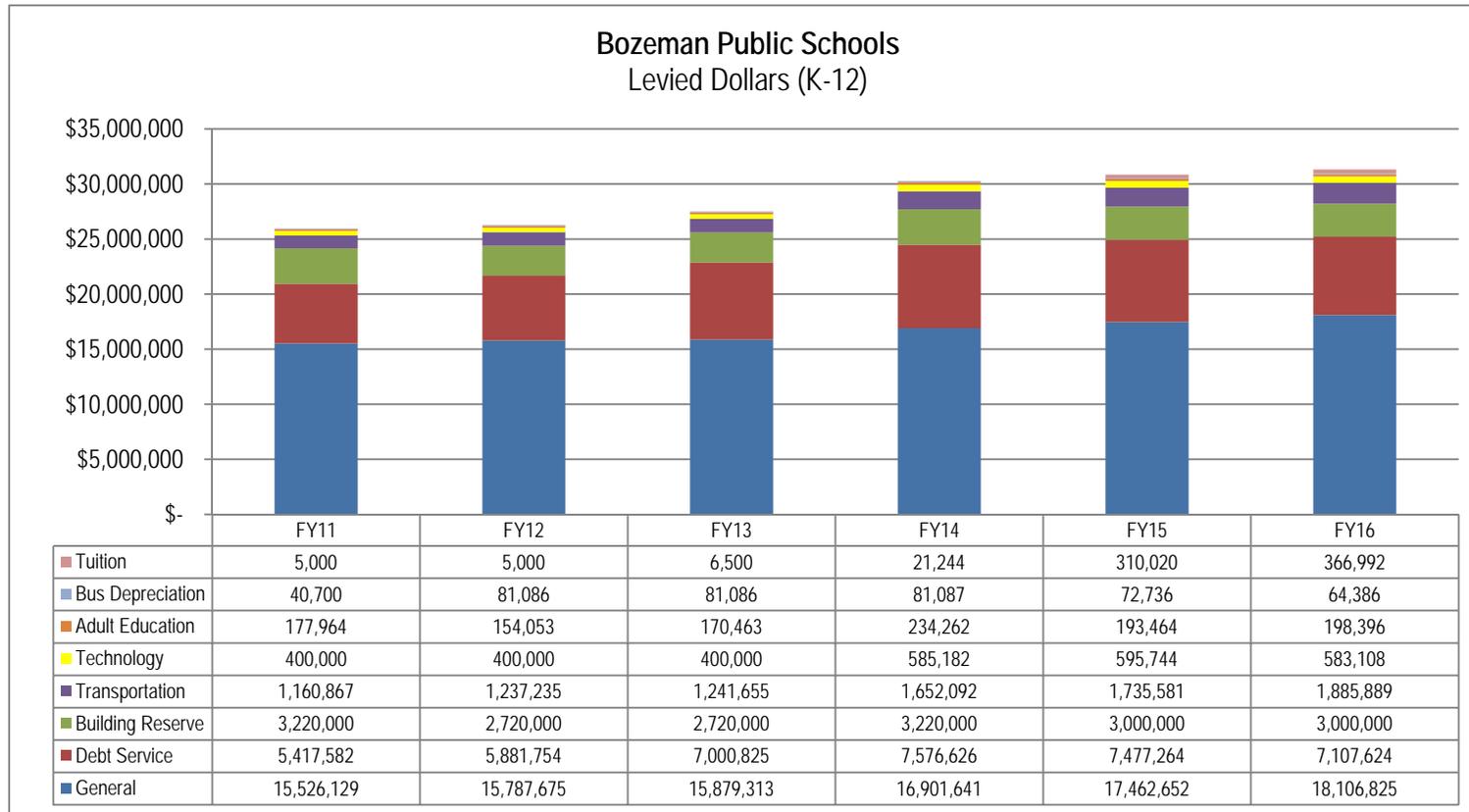
Enrollment

Enrollment represents the single most important factor in determining the District's General Fund operating budget. As the graph below indicates, Bozeman School District's enrollment continues to grow. K-12 student populations have increased by 21% over the past ten years. Our projections—based on information received from the State of Montana, Gallatin County, and Bozeman Deaconess Hospital—indicate this growth will continue into the foreseeable future.

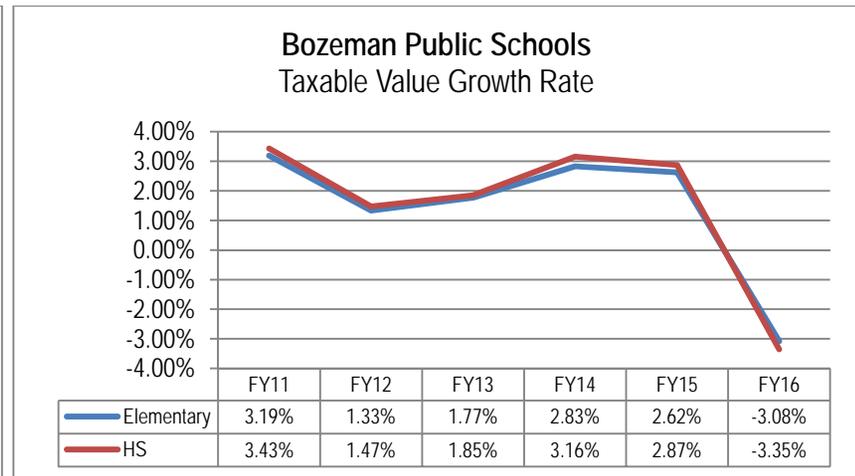
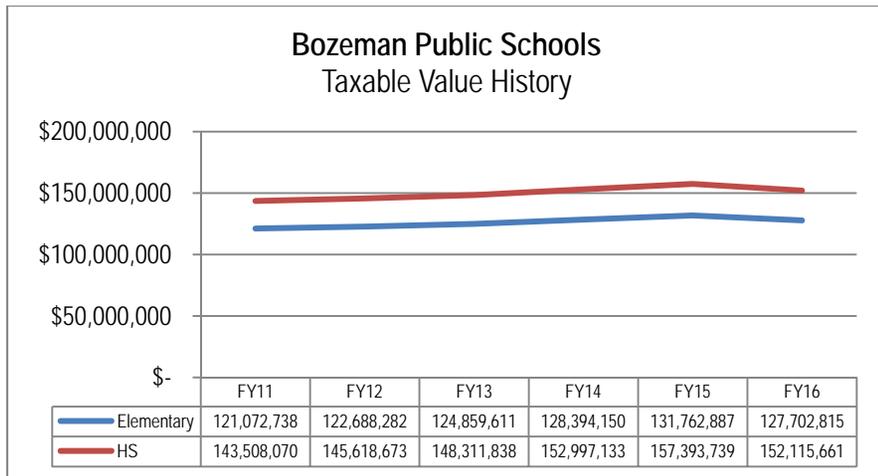


Taxation

Montana does not have a sales tax, and income tax revenue goes directly to the State Department of Revenue. As a result, local property taxes are a primary funding source for school budgets. As Bozeman's budgets grow, local property tax levies continue to increase as well. The FY2016 budget is funded by \$31,313,221 in property taxes, an increase of \$465,762 (1.5%) over FY2015:

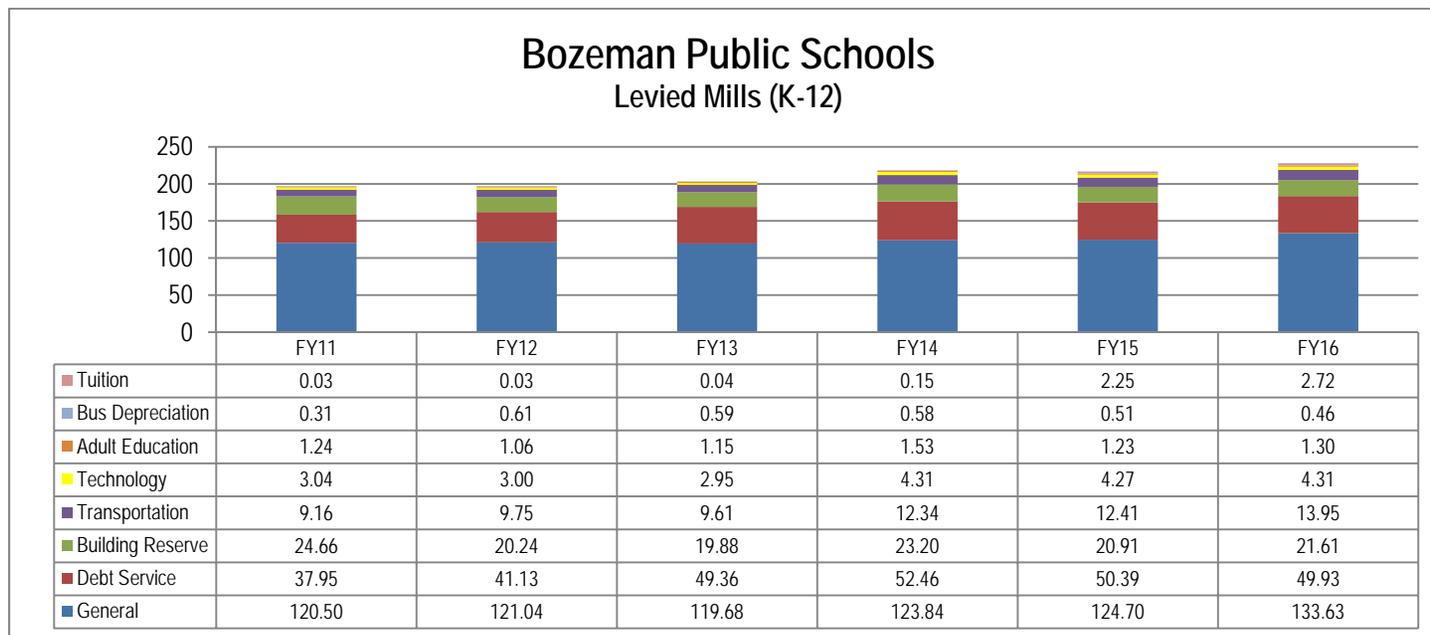


Fortunately, Bozeman has historically had a strong tax base to support the School District's revenue requirements, which helps to mitigate the tax impact on individual taxpayers. The Districts did experience an aberration in 2015-16, however, when we saw taxable values dip for the first time in over 15 years:



These decreases, however, are more a result of the state's formula for determining taxable value than an actual decline in the local economy. The 2015 Legislature did make significant changes to the formula through the passage of [SB157](#). Properties will now be reassessed every other year instead of every six years, as was the case with the former system.

As a result of the increase in tax revenue and the decrease in taxable value, total mills will increase 216.67 mills in 2015 to 227.91 mills in FY2016—an increase of 11.24 (5.2%):



Personnel Resources

Montana's state accreditation standards provide the basic framework for the District's staffing model. This year, the District plans to add 11.0 certified full-time equivalent staff (10.0 FTE elementary, 1.0 FTE high school) to accommodate our increasing enrollment. The budgeted cost of these new positions is \$660,000. Other positions may be modified or increased as needed.

Debt Outlook

In March 2015, the Districts refinanced nearly \$20 million in outstanding General Obligation debt. The refinanced bonds were originally issued in 2006 and 2007 to construct Chief Joseph Middle School and Hyalite Elementary Schools and renovate Bozeman High School. The terms of the advance refundings are as follows:

District	Maturity	Refinance Principal Amount	Previous Avg Interest Rate	New Avg Interest Rate	Taxpayer Savings
Elementary	June 30, 2026	\$ 8,935,000	4.07%	2.25%	\$ 564,806
High School	June 30, 2026	\$ 8,750,000	4.08%	1.43%	\$ 568,034
Total	N/A	\$17,685,000	N/A	N/A	\$1,132,840

In addition, the District also refinanced \$18,650,000 in debt at the beginning of FY2015. Total taxpayer savings from those refinances totaled \$1,563,433. When combined with this year's refinances, bring total taxpayer savings to \$2,696,273.

While it will not impact the FY2016 budget, the District does intend to pursue additional bond debt in the coming year. The District will request two issues: \$16 million and \$5.5 million to renovate and upgrade Sacajawea Middle School and Hawthorne Elementary, respectively. A mail ballot election for those bonds will occur on November 3, 2015.

Additionally, the District is initiating preliminary discussions with the community regarding high school overcrowding that is expected to occur in 2020. No decisions have been made regarding that future issue.

Budget Forecast

School finance in Montana differs from other states, and even other local governments within the state. Montana school operating budgets are unusual in that they are not contingent on taxable values and tax receipts. Rather, a series of factors--primarily enrollment and legislatively-determined rates--determine our legal spending authority each year. While we must maintain adequate cash flow, schools can spend up to these budget limits without regard to revenue collections.

This system has both advantages and drawbacks. The benefits are obvious: districts know their hard spending limits with certainty at the start of each year. There are also drawbacks to the system. In particular, the system essentially mandates year-to-year budgeting. The Montana legislature convenes in odd-numbered years, and they inevitably adjust the school funding formula each session. Given that each year's budget hinges on the prior year's actual enrollment and rates that change every other year, the system effectively precludes Montana schools from developing long range budgets beyond the next legislative session.

OTHER INFORMATION

Awards

The Association of School Business Officials awarded a *Pathway to the Meritorious Budget Award* to the Bozeman School District for its 2014-15 budget document. The award is a prestigious national award recognizing conformance with the highest standards for preparation and presentation of the budget document.

In order to receive this award, a school district must publish an easily readable and efficiently organized budget document, whose contents conform to the program standards. The *Pathway to the Meritorious Budget Award* is valid for a period of one year. We believe this budget document meets the requirements for a full *Meritorious Budget Award* and we are submitting it to ASBO to determine its eligibility for this certificate and designation.

Acknowledgements

We would like to express our appreciation to the Board of Trustees for their concern in providing transparency to the patrons of our school district and thereby contributing their support to the development of one of the best educational financial operations within the State. The preparation of this report could not be accomplished without the efficient and dedicated services of the Board, Administration, and the entire school district staff. To those personnel who assisted and contributed to its preparation, thank you!

The District has a long history of excellence in public education and transparency and prudent stewardship of taxpayer finances. We remain committed to each of those values. To that end, please contact my office at (406) 522-6097 or mike.waterman@bsd7.org if you have questions or need additional information.