

WEBSTER GROVES SCHOOL DISTRICT
EXECUTIVE SUMMARY
2019-20 BUDGET
June 10, 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 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 1st. 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 2019-20 District Budget during its May, 2019 meeting.

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

The administration is recommending a balanced 2019-20 budget (actually a slight surplus when excluding the one-time effect of \$13.1 million in Prop E bond issue projects) for Board approval. Thanks primarily to a modest revenue boost from 2019 being a

reassessment year, the state's continuing commitment to fully funding the Foundation Formula for public education and salary savings from staff retirements, the district's financial picture remains fairly stable in the coming year. While this is certainly welcome news for 2019-20, 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 ongoing financial tension simply represents an inherent 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, \$89K for elementary health staffing, \$69K for Hixson PE staffing, \$26K for additional WGHS academic lab TA 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 \$63.24 million (excluding about \$200K of projected bond issue interest earnings) are up \$1.47 million (2.38%) compared to last year (2018-19). Similarly, operating expenses (excluding \$13.1 million of Prop E bond projects) are at \$63.15 million, an increase of \$1.41 (2.29%) 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 (but with relatively small and growing deficits in 2020-21 and 2021-22), 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 \$1.7 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 and is realistically expected to grow by another \$1 million as the 2018-19 fiscal year closes (due to revenues traditionally coming in a little over budget and expenditures winding up a little under budget). 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.

MAJOR REVENUE OVERVIEW AND RECONCILIATION

Revenue Overview

While preliminary figures from the County Assessor point to an increase of more than 18% in the District's tax base due to reassessment, the district's actual increase in property tax revenues (excluding new construction and personal property) in 2019-20 will be limited by law to a 1.9% CPI factor. Consequently, the District could be required to roll back its operating tax levy by close to 16% (around 65-70 cents) if preliminary assessed valuation figures are not revised (lowered) by the County prior to the final calculation of the tax levy in August/September.

Nonetheless and like many public school districts in Missouri, WGSD is still 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 13.9% from the State Formula and about 6.6% from Prop C reveals that 85.5% 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:

	2016-17	2017-18	2018-19	2019-20
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Projected</u>
Assessed Valuation	\$740,899,120	\$807,231,700	\$808,625,930	\$962,089,160
Property Tax Collection Rate	97.49%	97.72%	97.87%	97.70%
Adjusted Operating Tax Levy	\$5.1975	\$4.8939	\$4.9245	\$4.2428
Debt Service Tax Levy	\$5.699	\$5.699	\$5.699	\$5.699
State Adequacy Target (SAT)	\$6,177	\$6,241	\$6,280	\$6,340
Dollar Value Multiplier (DVM)	1.095	1.094	1.095	1.095
Prop C per ADA	\$979	\$979	\$986	\$1,005
Avg Daily Attendance (ADA)	4,087	4,135	4,184	4,184
Property Taxes – Lines 1 & 2	\$38,854,782	\$39,978,032	\$40,255,000	\$41,247,400
State Formula – Line 16	\$7,867,357	\$9,002,013	\$8,500,000	\$8,825,100
Prop C – Line 4	\$3,868,764	\$4,181,646	\$4,078,000	\$4,204,500
Total	\$50,590,903	\$53,161,691	\$52,833,000	\$54,277,000
% of Operating Revenues	83.680%	86.007%	85.528%	85.550%

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)
- Line 7-Investment Earnings (due to rising interest rates and bond sale proceeds)

- Line11a-Transfer student tuition (due to declining VST enrollment)
- Line 11b-Preschool tuition (due to a restructuring of the program)

Property Tax Levies by Fund are subject to adjustment as revised assessed valuation information is received but are projected at (adjusted and unadjusted rates are the same):

<u>Fund</u>	<u>2018-19</u>	<u>2019-20</u>
General	\$3.0720	\$2.3903
Teachers	\$1.7900	\$1.7900
Building	\$.0625	\$.0625
Debt Service	<u>\$.5699</u>	<u>\$.5699</u>
Total	\$5.4944	\$4.8127

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 (\$6340 vs \$6280)	\$325,100
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>
Increase in Interest Earnings from Higher Interest Rate	\$86,000
Increase in Interest Earnings from Investment of Bond Proceeds	\$200,000
Increase in Adventure Club Collections	\$74,200
All Other Net Revenue Increases/<Decreases>	<u><\$13,400></u>

2019-20 Budgeted Operating Revenues \$63,444,500

MAJOR EXPENDITURE OVERVIEW AND RECONCILIATION

Expenditure Overview (excluding \$13.1 million for Prop E bond projects)

	2016-17	2017-18	2018-19	2019-20
	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Projected</u>
Salaries	\$36,145,982	\$37,314,214	\$38,141,000	\$39,409,700
Benefits	\$8,811,828	\$9,193,317	\$9,996,300	\$10,700,100
All Other Operating Exp's	<u>\$11,206,524</u>	<u>\$13,317,272</u>	<u>\$13,601,293</u>	<u>\$13,041,900</u>
Total	\$56,164,334	\$60,161,980	\$61,738,593	\$63,151,700
Operating Expense per ADA	\$13,742	\$14,549	\$14,756	\$15,094

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 2019-20 budget. Specifically, the budget allows for 1 additional teacher each at Edgar Road and at Bristol due to increasing student enrollment, an additional .5 counselor at Edgar Road, 2.2 additional Hixson teachers (PE, Gifted and .2 Spanish), 3 additional WGHS FTE (one for the new High School THRIVE program, one for VISTA alternative program and one Ac Lab) and 1.4 FTE to support elementary health/PE. One FTE Gifted staffing reduction was also implemented at Clark based on caseload guidelines. The remaining source of salary changes indicated in the budget are due to relatively modest annual salary adjustments for staff.

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 9.7% medical premium increase for 2019-20 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 20%) of the operating budget is comprised of non-salary/benefit costs. Primary among these are (explanations of variances are shown on the budget document):

	2016-17 <u>Actual</u>	2017-18 <u>Actual</u>	2018-19 <u>Budget</u>	2019-20 <u>Projected</u>
Line 51-Utilities	\$1,178,924	\$1,128,752	\$1,125,000	\$1,141,600
Line 59-Insurance	\$734,226	\$775,596	\$717,000	\$795,900
Line 69-Student Activities	\$1,781,305	\$1,857,429	\$2,000,000	\$2,000,000
Line 75-Food Service	\$904,076	\$1,066,879	\$1,145,900	\$1,166,500
Line 81-Adventure Club	\$919,426	\$1,009,898	\$1,141,900	\$1,195,100
Line 84-Preschool(incl Headstart)	\$1,185,177	\$1,165,474	\$1,354,000	\$1,438,000
Line 89a-Tuition-other districts	\$1,449,191	\$862,657	\$918,000	\$951,400
Line 96-Building Improvement	\$175,462	\$945,629	\$1,803,916	\$1,304,000
Various-Building budget alloc.			\$1,179,300	\$1,205,977

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

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 Salary Savings	<\$310,000>
Projected Teacher Channel Changes	\$140,000
7.6 FTE New Staff for Class Sizes, THRIVE, Ac Lab, HX Gifted & Elem Health	\$389,200
Reduction of 1.0 FTE Elem Gifted	<\$84,700>
New COO Position	\$171,000
Reduction in Contracted COO/CFO	<\$97,000>
10% Medical Insurance Premium Increase	\$402,700
Retirement Contrib Impact of Salary, Benefits & Staffing Changes	\$230,900
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
Adventure Club Increase (self-supporting)	\$53,200
Additional FACE Part-time Parent Educator	\$33,700
Preschool Salary Incr, Add'l SpEd TA & Permanent Sub (self-supporting)	\$84,000
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>	<u>\$20,307</u>
2019-20 Budgeted Operating Expend's (excl. \$13.1 million Prop E)	<u>\$63,151,700</u>

FUND BALANCE OVERVIEW

The district operating fund balance has been healthy and growing slowly for the past several years and is projected to be about \$26 million as of the 2018-19 fiscal year-end based on budgeted amounts. However, the actual balance is more likely to be about \$27 million as the district typically slightly exceeds revenue targets and underspends expense budgets. About \$2 million of district balances are dedicated toward self-funded programs such as Preschool Adventure Club, Student Activities and Food Service, leaving about \$24-25 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 38-40%.

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 \$1.7 million) MAY be needed to balance the budget. Even so, operating fund balances are still not expected to drop below 37% (excluding one time bond issue project expenditures) during this upcoming, rolling 3 year projection 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 associated bond paying agent 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.

State statutes allow schools to maintain a fund balance of up to one year's debt service requirements (presently around \$5.8 million) . While past declines in the district's tax base, a fixed levy at \$.5699 and scheduled increases in annual principal payments had eroded debt service reserves over the past several years, the tax base fortunately began recovering in 2015. This recovery, in conjunction with Board approved fund balance transfers to the Debt Service Fund and a bond refunding completed in December 2017, has helped to put the Debt Service Fund back in solid financial condition. In fact, it is healthy enough to support the recently approved \$22 million Prop E bond issue without increasing the current \$.5699 debt service levy. Furthermore, significant additional bonding capacity (\$10 million or more each cycle) is projected to be available on a 4-5 year cycle in future on a no tax rate increase basis.

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, 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 \$100K for the first year (2019/20), then moves to a deficit of about <\$570K> in 2020/21 concludes with about a <\$1.1> million deficit in the third and final year 2021/22. This negative trend results from the previously noted slight structural imbalance/differential in projected average operating revenue growth versus average projected operating expenditure growth of about 1.5% (about \$1 million) per year. In my opinion (and as has been borne out during the past few annual budget cycles), this is no cause for undue concern because 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 \$1.7 million or less), the district's budget appears sustainable for 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.

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 committed to working during each fiscal year to reduce future projected deficits and to extend its projection of sustainability and excellence for additional years.

FUTURE POSITIVES

1. Additional TIF values that will be coming on tax rolls in 2028 (\$9.2 million).
2. Future additional no tax increase bond capacity could help relieve operating budget of some capital outlay type expenditures.
3. Strong real estate market bodes well for potential increasing assessed valuation.
4. More significant (increasing) CPI rate may allow district to utilize a greater portion of future reassessment value increases.
5. District may continue moving to lower risk health insurance tiers which would help reduce future premium increases.
6. Rising short term interest rates may increase the districts investment earnings.
7. Continued focus on operational efficiencies and revenue enhancements.
8. New salary models continue to make future salary increases more consistent and affordable while also providing a competitive, adjustable benchmark for lean times.
9. Growing simple majority operating tax rate increase margin available.
10. Generally conservative budgeting approach in projecting both revenues and expenditures.
11. Potential salary/benefits savings from staff retirements due to aging workforce.
12. Rising real estate values for reassessment in odd-numbered years.
13. Slowly increasing enrollment may increase state funding.

14. Recent legislation to hold districts harmless from reductions in financial institutions tax due to state tax rate reductions.
15. Strong fund balance position.

FUTURE NEGATIVES

1. Future status of declining Public Placement Funding level by State (possible service, facility and/or contracted expense impact).
2. If future interest rates rise it may increase the cost of future new debt issuance.
3. Nothing currently under consideration, but there is always the potential for future increases in state retirement contribution rates due to retirement benefit changes, changes in investment returns or retirement system funding levels.
4. Nothing currently under consideration, but there is always potential for future increases in FICA or Medicare contribution rates.
5. Large increases in health insurance costs likely to continue for at least a few years.
6. Gradual phase down of Voluntary Student Transfer program, which currently comprises about \$586,500 (.9%) of district revenues.
7. May be transition costs related to movement of staff/students from Steger to Hixson and among the elementary schools as boundary changes are made.
8. Rising repair, maintenance and renovation costs due to aging district facilities and infrastructure.
9. Stability of state economy and political landscape as they may impact future State Funding in general.
10. Future stability of real estate values, particularly the residential real estate market values, which generate nearly 50% of district revenues.
11. On-going differential between revenue growth rate and expenditure inflation.