

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #174 (2006-2007)

January 23, 2007

TO: SCHOOL BOARD

FROM: OFFICE OF THE SUPERINTENDENT

SUBJECT: FISCAL YEAR 2007-2008 PRELIMINARY FINANCIAL PLAN

ASD Goals: Ensure public accountability through continued preparation and publication of budget basics, and budget; and effective communications with students, staff, parents, community and government at all levels.

PERTINENT FACTS:

The accompanying budget document contains the Anchorage School District's FY 2007-2008 Preliminary Financial Plan. The total budget recommended is \$698,538,417. This includes individual fund budgets currently projected as follows:

	<u>FY 2007-2008 Financial Plan</u>
General Fund	\$ 547,275,403
Food Service Fund	16,322,000
Debt Service Fund	79,206,014
Local/State/Federal Grants Fund	<u>55,735,000</u>
Total - All Funds	<u>\$ 698,538,417</u>

THE BUDGETING PROCESS

The budget provides a blueprint for the Anchorage School District's educational goals. When developing the budget, the Anchorage School District has an obligation to its many stakeholders—the students, parents, employees, and community members—to consider each group's priorities and balance them with the District's stated mission of educating all students for success in life. The

FY 2007-2008 budget projections reflect the District's on-going efforts to achieve this balance, maximize performance, and contain costs.

These projections for FY 2007-2008 are prepared using the most current information available. Existing funds and cost savings are directed to District programs to ensure that progress is made in achieving the current School Board Goals. The budget development process is mindful of the District's Six-Year Instructional Plan and various local, state and federal mandates, with the responsibility of designating financial and human resources within projected revenues.

BUDGET DEVELOPMENT

The budget development process for the District is an ongoing process that encompasses over six months of gathering and analyzing information. The budget continues to realign the District's priorities, as budgeting is a progressive process. The balanced budget concept, Alaska Public School Funding, and the local property tax limitation necessitate early predictions of both revenues and expenditures. Federal, State or local mandates may require the District to incorporate additional responsibilities and/or initiate new programs within the District. Various demographic and economic factors must be evaluated for their impact on the budget. Then, the total of all school and department budgets plus any new facilities or change in program requirements are compared to anticipated revenues.

Departments and schools review their programs and responsibilities; assess what is being done during the current fiscal year and what progress is being made; begin making plans for next year and future years; and then prepare budget requests based on their program requirements and how they support the School Board Goals and Mission of "educating all students for success in life."

Input from eighteen Budget Review Teams, community members, students, and staff members resulted in change or elimination of existing programs or implementation of new ones. The focus still remains on evaluating the need for additional staff, supplies, and other operating expenses. Efficiencies were achieved through better resource management or teaming with other agencies. This is an ongoing process.

On October 30, 2006, a School Board FY 2007-2008 financial planning work session was held. A proforma revenue and expenditure budget was presented based on the information known then. At that time the Administration projected that the District faced a \$20.446 million fiscal gap for FY 2007-2008. Assumptions used for projection purposes were reviewed with the School Board. The

Administration gathered suggestions and changes that the School Board members wanted the Administration to further investigate including any of the suggestions submitted by the Budget Review Teams, staff and community members. The School Board directed the Administration to use a portion of the undesignated fund balance as a funding source and still maintain an undesignated fund balance of approximately 3.5 percent of the FY 2007-2008 projected budget after honoring the required amount agreed to with the Municipality of Anchorage for bond rating purposes.

On November 13, 2006, the School Board authorized the Superintendent to prepare the Anchorage School District's FY 2007-2008 Preliminary Financial Plan. With direction of the School Board at the work session on October 30, 2006 to proceed with the use of a portion of the undesignated fund balance, the Administration recommended using \$3.225 million of fund balance to reduce the fiscal gap from \$20.446 million to \$17.221 million. Information regarding the deductible portion of Federal Impact Aid for the FY 2007-2008 Alaska Public School Funding Program was updated resulting in a funding reduction of approximately \$631,000. The revenue projections were adjusted to reflect this updated information resulting in a fiscal gap of \$17.852 million. During the discussion at this meeting, the Administration indicated that due to the uncertainty of the funding at the State level for the mandatory classified and certificated retirement rate increases, the total amounts for each fund at this time did not include the retirement rate increases approved by the Alaska Retirement Management Board (ARMB). It was indicated that when we brought forward the preliminary budget in January, we would address the issue and were hopeful that we would have additional information regarding any proposed State funding. In addition, flexibility was given to allow for adjustments based on the budget being in alignment with academic achievement, updated demographics, and/or economic information.

Since the November 13 School Board meeting, Governor Palin has taken office and has issued a proposed FY 08 budget including certain funding levels for education. The Department of Education and Early Development has verified that the Governor has included in her proposed FY 08 budget the following items that impact education funding - (a) continuation of the base student allocation at \$5,380, (b) funding to maintain the same amount that was allocated in the current year to each school district for the one-time \$81.25 per ADM School Improvement Grants and for the equivalent of one-quarter of the area cost differential recommended by the University of Alaska Institute for Social and Economic Research (ISER), and (c) funding to cover the Department of Administration's September 11, 2006 estimated increased employer cost for school districts resulting from employer retirement contribution rate increases for fiscal year 2008. It has also been confirmed that the Department of

Administration's schedule includes classified and certificated salaries for all funds. The Anchorage School District appreciates the Governor's support of education and will lobby the Legislature for early increased education funding. We realize that there will be much discussion occurring during the legislative session before a final decision is made regarding the State education funding for next year; but, we feel the Governor's proposal is a good base to use for preparing the District's preliminary budget for FY 2007-2008. **It is important to keep in mind that the budget process is a work in progress. The preliminary budget being presented by the Administration at this time will most likely change, particularly as the Legislature addresses bills related to school funding and information related to the local tax limitation is finalized. As more information becomes known at both the State and local level, we will make adjustments and refinements during the various upcoming stages of the budget development process between January and June 2007.**

Based on the Governor's proposed budget, the Administration has prepared the attached Anchorage School District's FY 2007-2008 Preliminary Financial Plan using a base student allocation of \$5,380; has included a revenue source in the General Fund of \$3,993,800 for the School Improvement Grant; and has included in each appropriate fund a new State revenue source titled "Supplemental State PERS/TRS Funding". Each of the District funds impacted by the retirement rate increases include an expenditure budget increase to reflect the ARMB approved Public Employees' Retirement System (PERS) rate increase from 24.25 percent to 40.89 percent and the Teachers' Retirement System (TRS) rate increase from 26 percent to 54.03 percent. In the Food Service Fund, the revenue and expenditure budgets have both been increased by the same amount; therefore, resulting in the budget remaining in balance. In the Local/State/Federal Grants Fund, a supplemental state PERS/TRS revenue amount has been added to equate to an amount that is estimated to cover the required retirement rate increases for that fund. In the General Fund, in addition to the revenue and expenditure budget increases due to the mandatory retirement rate increases, the School Improvement Grant revenue was also added; but, the base student allocation used in the Alaska Public School Funding Program formula remains at \$5,380, the same amount as in the current year.

During the past two months as the Administration proceeded forward in preparing a FY 2007-2008 Preliminary Financial Plan in which expenditures would equal revenues, the District's mission of educating all students for success in life was always at the forefront. It was also recognized that this could not be accomplished without support and maintenance departments. Review and reassessment of assumptions and parameters were made again. Updated and new information was incorporated. Assessment of workload and reorganization within departments to improve efficiencies were made. Budget Review Team,

community, staff and student suggestions were considered and implemented where appropriate. **After a great deal of review, consideration and discussion, the Superintendent is presenting to the School Board a balanced FY 2007-2008 Preliminary Financial Plan totaling \$698,538,417. Expenditures have been brought into balance with revenues by making reductions. Eliminating the fiscal gap while allowing for some enhancements was not accomplished without directly impacting instructional programs. Some reductions were made as a result of efficiencies through better resource management; some were made in order to provide for some enhancements or requirements aligned with the Six-Year Instructional Plan and School Board Goals. As the Administration presents the budget to the School Board on January 23 and 25, program reductions, enhancements, and realignments will be identified.**

Student enrollment, revenues, and expenditures are projected on a preliminary basis. The following sections on Student Enrollment Projections, General Fund Revenues and Expenditures, and Other Funds summarize the principal financial planning factors involved in preparing FY 2007-2008 projections. Major revenue and expenditure considerations and budget development criteria are also included.

STUDENT ENROLLMENT PROJECTIONS

Student Enrollment—The most significant factor in the budget development process is the number of students served. Enrollment projections are based on enrollment history, profile, and both demographic and economic considerations. The General Fund budget is developed using the FTE (full-time equivalent) student count, weighting half-day kindergarten at one-half and preschool special education students at one-half or one-quarter, which is consistent with their programs.

In order to project student enrollment, District staff works closely with the Municipality of Anchorage in utilizing the Municipality's Geographic Information System. The following schedule summarizes the actual and projected student enrollment information for FY 2004-2005 through FY 2007-2008 on both a full count and FTE basis.

	Actuals 2004-2005 <u>9/30/04</u>	Actuals 2005-2006 <u>9/30/05</u>	Actuals 2006-2007 <u>9/30/06</u>	Projected 2007-2008 <u>9/30/07</u>
Total Number	49,454	49,589	49,068	48,848
Change over previous year	(209)	135	(521)	(220)
FTE (Full-Time Equivalent)	49,239	49,353	48,816	48,580

Variable General Fund expenditures will be revised periodically for changes in enrollment projections. We will continue to review projected enrollment to determine if we need to make adjustments. Enrollment for the two new charter schools scheduled to begin in FY 2007-2008 have been included within the current projections as the Administration believes the vast majority of their students will come from our existing schools.

GENERAL FUND

The General Fund, consisting of each school's and department's budgets, accounts for the majority of the District's operations and activities. Therefore, this memorandum and most of the subsequent discussion and decisions on balancing the budget for next year will focus primarily on estimated revenues and expenditures of the General Fund.

Revenues

Alaska Public School Funding Program—The largest single revenue source to the District comes from the Alaska Public School Funding Program. Based on the Governor's educational funding plan released on December 15, 2006, the Administration has continued to use the current year's base student allocation (BSA) of \$5,380 in the Alaska Public School Funding Program formula. **We appreciate the Governor addressing the extraordinary employer contribution rate increases approved by the ARMB to the TRS and PERS retirement systems by providing a separate funding source outside of the Alaska Public School Funding Program, but we are also hopeful that during the upcoming legislative session the Governor and Legislature will increase the BSA to help mitigate increased utility and fuel costs, insurance, employee costs, and other expenses affected by inflation. It is essential that Alaska school districts receive increased funding to assist with meeting adequate yearly progress as defined by state and federal regulations.**

Currently, the funding for the PERS/TRS retirement rate increases is being recorded under a separate State revenue source which results in the percentage of the Alaska Public School Funding Program as a percentage of the District's total General Fund revenues being reduced from 55.4 percent to 48.6 percent. The continuation of the per pupil amount for the base student allocation of \$5,380 and the Quality School Grant at \$16 per pupil are being used. Anchorage is considered the base with regards to the area cost differential factors in the Alaska Public School Funding formula and is not receiving any funding in the current year related to the partial implementation of the proposed ISER area cost factors, so the District will not be impacted by the Governor's proposal to continue the same allocation in FY 2007-2008 as in FY 2006-2007. Based on

current enrollment projections, the amount of funding for FY 2007-2008 is \$266.027 million, which is \$10.154 million less than the current FY 2006-2007 budget. Three other factors also impact the projected level of funding: (1) decrease in anticipated enrollment, (49,068 budgeted for FY 2006-2007 and 48,848 projected for FY 2007-2008); (2) decrease in identifying Level III intensive special needs students results in a \$.215 million decrease of revenue; and (3) the \$3.756 billion increase in State assessed property valuation for the Municipality. The increase in the State's assessed valuation results in a larger required local effort deduction causing a reduction in the Alaska Public School Funding Program funding.

The Alaska Public School Funding Program is based on the average daily membership (ADM)—determined by the District's enrollment and special education intensive count—processed through a school size factor and special needs formulae to establish the District's "basic need." The required local contribution and a percentage of the Federal Impact Aid funding that the District receives for Federally-connected students is then subtracted from the "basic need" to determine revenue. The Alaska Public School Funding formula defines the required local share as being the lesser of 45 percent of "basic need" or 4 mills times one-half of the annual increase in assessed valuation compared to the 1999 base year of total State assessed full and true valuation of local real estate, inventory and other taxed personal property for the second preceding year, added to the prior year's calculated assessed valuation. An increase to the assessed valuation reduces the potential amount of Public School Funding revenue. The Alaska Department of Community and Economic Development has notified the District that the assessed valuation for Anchorage has increased from \$25.077 billion to \$28.834 billion.

Supplemental State PERS/TRS Funding—Based on the Governor's proposed FY 08 budget released on December 15, 2006, which includes funding specifically to address PERS/TRS cost increases for school districts resulting from the retirement rate increases approved by the ARMB, we have included a new state revenue line item in the FY 2007-2008 Preliminary Financial Plan titled "Supplemental State PERS/TRS Funding". Using the amount designated for the Anchorage School District on the Alaska Department of Administration's schedule, dated September 11, 2006, approximately \$67.034 million has been allocated to the General Fund based on estimated salaries projected for FY 2007-2008. This is equivalent to approximately 12.2 percent of the District's General Fund revenues.

School Improvement Grant—Based on the Governor's educational funding plan, an appropriation of \$3.994 million has been included as a State revenue source in the General Fund. This amount was previously allocated in FY 2006-

2007 as a one-time grant, but the Governor has included in her FY 08 budget a continuation of the same amount for each district as they are receiving in the current year.

Local Property Taxes—Local property tax contribution is the District's second largest General Fund revenue source. Projected local property tax revenue for FY 2007-2008 is based on requesting the full amount of taxes available under the local property tax limitation independent of the Municipality's share of the tax cap. The amount requested is \$1.755 million under the maximum allowable local contribution permitted by the Alaska Public School Funding Program.

The local property tax limitation provides for an annual adjustment for inflation, five-year Anchorage population change, operation and maintenance on new voter-approved facilities and new construction.

The projected inflation rate used for planning purposes is 3.9 percent. This preliminary estimate is the rate being used by both the District and the Municipality of Anchorage in the property tax limitation calculations. The official Consumer Price Index (CPI) is not be available until late January 2007. As determined by the State Department of Commerce, Community and Economic Development, the five-year Anchorage municipal population change used for planning purposes is 1.26 percent, with the official percentage growth not available until February 2007. The projected combined rate of 5.16 percent for FY 2007-2008 is .80 percent more than the current rate of 4.36 percent for FY 2006-2007.

The U.S. Department of Labor recently released on its website that the CPI for Anchorage is 3.2 percent. We have contacted the Municipality to see if they are making any adjustment to their budget at this time. They have indicated that they are in the process of verifying the CPI and that since the five-year population change is not available at this time nor has the new construction amount been finalized, they are not making any adjustments to their property tax limitation amount at this time. If we receive sufficient information by the second reading of the budget on February 8, we will inform the School Board and make adjustments if necessary.

Included in the revenue projections are voter-approved taxes associated with the operation and maintenance costs for the major renovations at Service High School and the new Begich Middle School.

At this time approximately \$14.6 million of increased taxes is available in the General Fund. Final numbers will not be available until late April. However, the

Anchorage Assembly must first consider and approve the District's local property tax request.

Federal Impact Aid—The initial revenue projection for Federal Impact Aid has been projected at 100 percent of projected entitlement, an anticipated \$12.0 million. Uncertain at this time is any student enrollment adjustment as a result of the deployment of military personnel and the relocation of their families. The outcome of these military decisions will have an impact on future funding.

The amount of Federal Impact Aid revenue each year is uncertain because it is subject to pro-ration based on the annual funding appropriated by Congress. In addition, the percentage of the total number of federally-connected students to the total number of students the State has direct responsibility for—including military students and children educated at Mt. Edgecumbe—and potential formula changes, could result in fluctuations in Federal Impact Aid funding to the District. This coupled with the fluctuation from year-to-year in the number of students living on military land, which can partially result from on base/post housing renovations, adds to the uncertainty of Federal Impact Aid revenue during the budget process.

This Program is subject to annual Congressional appropriation and will be monitored. We do not know, for example, if the District will receive prior year adjustment payments during FY 2007-2008.

Fund Balance—The District's undesignated fund balance for the General Fund is a potential one-time source of revenue. Determining the appropriate level of fund balance required for a contingency reserve requires an exercise of judgment. Industry standards recommend undesignated fund balances or contingency reserves remain between 3 to 5 percent of the budget. The undesignated fund balance needs to be maintained to protect against shortfalls in revenue collection, to allow for adequate cash flow management, and to provide the financial ability to meet emergencies.

At the Work Session on October 30, the School Board gave direction that a portion of the undesignated fund balance could be used as a revenue source to reduce the amount of expenditure reductions that would be necessary to bring budgeted expenditures in balance with budgeted revenues for FY 2007-2008. The School Board indicated that the undesignated fund balance needed to be maintained at approximately 3.5 percent of the FY 2007-2008 projected budget, in addition to honoring the agreement with the Municipality of Anchorage to maintain a fund balance in the General Fund at year end in an amount equal to or greater than 8.25 percent of total General Fund revenues from local tax

appropriations to for Municipality’s bond rating purposes. In ASD Memorandum #112 - Fiscal Year 2007-2008 Financial Planning, dated November 13, 2006, the Administration indicated that \$3.225 million of fund balance could be used as a revenue source and still maintain the School Board specified 3.5 percent of the FY 2007-2008 projected budget.

Since that point in time, the Governor released her proposed FY 08 budget which includes funding for the increased rates for both the PERS and TRS retirement systems. The Administration has included in the FY 2007-2008 Preliminary Financial Plan the projected revenues and expenditures for the retirement rate increases, which when combined with other additions and reductions to bring the budget in balance, has resulted in the General Fund budget to increase by approximately \$71.027 million since the November 13 projections. The Administration is recommending continuing to utilize the \$3.225 million of fund balance as a revenue source, which results in the undesignated fund balance to be approximately 3.0 percent of the General Fund preliminary budget of \$547.275 million after honoring the agreement with the Municipality of Anchorage on maintaining fund balance for bond rating purposes. This percent is within industry standards of 3 to 5 percent of the budget.

Pupil Transportation Reimbursement—The preliminary FY 2007-2008 revenue projection for Pupil Transportation is based on the State transportation funding mechanism adopted in July 2003 that caps the per student allocation at the 2003 level with inflationary adjustments established at one-half the Anchorage consumer price index in 2004 and 2005. The inflationary provision expired on June 30, 2006; therefore, the projections do not include a CPI adjustment. If the Legislature makes any adjustments to the formula they will be included in future projections.

User Charges and Fees—Fees continue to be assessed for musical instrument usage, ASD documents, High School and Middle Level Student Activity fees, High School parking fees, summer school, credit course training fees, and rental fees. After further review and recommendations made by the Budget Review Teams, community and staff, the Administration is recommending a \$5 per course increase to all levels of summer school, \$5 per activity increase at the middle and high school levels, and a \$5 increase to the family cap for activity fees. The following schedule shows the FY 2007-2008 proposal as compared to FY 2006-2007:

	<u>FY 2006-2007</u>	<u>FY 2007-2008</u>
Summer School - Elem./Middle	\$80 per course	\$85 per course
Summer School - High School	\$85 per course	\$90 per course
Music Instrument Usage Fee	\$40 per instrument	No change

Middle Level Activity Fees	\$75 per activity	\$80 per activity
High School Activity Fees	\$130 per activity	\$135 per activity
High School Parking Fees	\$50 per semester	No change
Facility Rental Fees *	\$548,000	\$580,000
Family Cap for Activity Fees	\$325	\$330

* As a requirement to receive funding from the Rasmuson Foundation for improvements to the West High School auditorium, the District is required to charge a surcharge on non-school district events for funding a maintenance and replacement fund for the auditorium. The District is currently working with the Rasmuson Foundation on the details. The Administration is proposing that a comparable surcharge be established for non-school district events at the auditoriums at Bartlett, East and Chugiak High Schools and probably a smaller surcharge for non-school district events at the auditoriums at Dimond, South and Eagle River High Schools. This will allow the District to replace chairs and equipment as needed. This proposal would not increase the user fee revenue in the General Fund. The maintenance and replacement fund would be established outside of the General Fund similar to the Equipment Replacement Fund that the District currently maintains. Further information will be brought forward to the School Board at a later date.

Medicaid—Based on an assertive action plan by the District to ensure that the funding is obtained, it is estimated that the District will receive approximately \$1.0 million in Medicaid funding. The District is working closely with the Alaska Department of Health and Social Services (DHSS) to ensure that we obtain the maximum eligible funds for the District. The DHSS has established procedures that will make the process less cumbersome for districts. They have put the survey form on-line and have provided training to the District. The District has put in place guidelines to secure training for personnel randomly selected by DHSS and will monitor this closely to ensure that we maximize the amount of revenues the District is eligible to receive.

E-Rate—The District has not yet received the funding commitment letter from the Universal Service Administrative Company (USAC) for FY 2006-2007; however, the District has been working with the Program Integrity Assurance group of USAC and anticipates a funding commitment letter later this year. There are no significant program changes that would alter FY 2007-2008 revenue projections from the FY 2006-2007. The District receives all eligible revenues based on all eligible expenditures.

Expenditures

Student and program needs and a commitment to use the funds economically drive expenditure projections. Recommendations received from the Budget Review Teams, interested community members, staff, students, and the

Administration have been considered and incorporated into the budget where appropriate always keeping in mind the District's core focus of providing educational services. **Both revenue enhancements and expenditure reductions were incorporated to bring the budget into balance.**

Salaries and Benefits—Employee salaries, wages, and benefits are projected to be approximately 87.9 percent of the operating cost of the District. The projections include consideration for the last best offer for the Anchorage Education Association (AEA) and the “me too” clauses for the other bargaining groups. In addition, the projections include consideration for contract negotiations for the Anchorage Principal Association (APA) and compensation consideration for Exempt personnel. Once these two contracts are finalized, adjustment for FY 2007-2008 costs will be made. Compensation provisions for completed contracts and payroll tax adjustments known at this time are also included in the expenditure projections. The FY 2007-2008 Preliminary Financial Plan includes the new retirement rates approved by the ARMB for the PERS and TRS retirement systems. Based on the Governor's education funding plan released on December 15, 2006, a new revenue line item has also been added for funding the estimated increased retirement costs related to the mandatory retirement rate increases for certificated retirement (26 percent to 54.03 percent) and classified retirement (24.25 percent to 40.89 percent).

Staffing—Staffing requirements have been adjusted based on the official projections set forth for September 30, 2007. Official projections are based on actual enrollment as of September 30, 2006.

Certificated Teaching Positions—After careful consideration and implementation of many of the recommendations for revenue enhancements and expenditure reductions made by the Budget Review Teams, interested community members, staff, and students, the Administration is not able to bring budgeted expenditures in balance with budgeted revenues without increasing class size. In addition to making adjustments for staffing based on enrollment changes, program realignment, and for staff requirements based on rural-urban transitioning and immigration from other countries that provides the District with a wealth of challenging opportunities with over 90 languages spoken in the Anchorage Schools other than English, the pupil to classroom teacher staff ratio (PTR) for FY 2007-2008 is recommended to be increased by 1.5 in all grade levels above the current year PTR. Staff for special education is continuing to be based upon demonstrated need and program.

	<u>FY 2006-2007</u>	<u>FY 2007-2008</u>
Kindergarten (FTE)	20.75 to 1	22.25 to 1
Grade 1	21.25 to 1	22.75 to 1
Grades 2-3	24.25 to 1	25.75 to 1
Grades 4-6	27.25 to 1	28.75 to 1
Grades 7-8	25.79 to 1	27.00 to 1
Grades 9-12	27.33 to 1	28.54 to 1
Special Education	Staffing is based upon demonstrated need and program (consistent with current year)	

Indirect Cost—In addition to charging eligible grants, the Administration plans to continue the practice put in place for charging the Food Service Fund using the State-approved indirect cost rate. This more accurately reflects the cost of services provided to the Food Service Fund by various departments budgeted in the General Fund. It is anticipated that by early spring 2007 the District will be appraised of the approved indirect cost rate for FY 2007-2008.

Contracted Services—Where appropriate, an inflationary adjustment to contracts has occurred. A very close review of actual contracted services determined if inflationary increases are warranted. If other known rate increases are warranted, they were included in the budget. Utilities are budgeted based on analysis of usage and cost saving measures being taken, and are then adjusted according to projected rate increases and/or decreases as recommended by the utility agencies. With rate adjustments occurring mid-year FY 2006-2007, review of actual projected expenditures for this year, and as of November 1, 2006 the loss of the 8.5 percent discount rate previously received from Aurora Gas, approximately 3 percent to 42 percent increases for the utilities are projected over the current year utility budgets.

Pupil Transportation—Expenditures for contracted pupil transportation routes or FY 2007-2008 include an estimated increase based on COLA of 3.0 percent. However, revenue funding to support the expenditures no longer provides for the COLA adjustment. This issue is a School Board legislative priority.

Major Maintenance—The Administration recommends maintaining the funding level for major maintenance projects of \$2.483 million for some of the District's more than 94 schools and facilities. As our facilities continue to age, periodic maintenance must take place on a regular basis to keep the buildings in good repair for optimum safety and efficiency. The community has voiced strong support for prioritizing this use of funds.

Supplies—Some departments may show an increase in supplies based on departmental need to service the total District program requirements (i.e., fuel

requirement to run District buses and vehicles and postage). The per pupil allocation for school supplies and equipment includes an inflationary adjustment for middle and high school levels. Elementary education elected to not increase their supply/equipment allocation in lieu of making further reductions. In addition, the FY 2007-2008 supply/equipment allocation for the new Begich Middle School is four times the regular rate of existing middle schools to help offset some of the extraordinary expenditures of opening a new school.

Equipment – Replacement equipment purchases between \$5,000 and \$50,000 will be purchased from the Equipment Replacement Fund. The FY 2007-2008 Preliminary Financial Plan includes on a small amount of funds for expendable equipment other than the amount included in the student supply/equipment allocation.

New School and Additions – Included in our expenditure projections are costs associated with the operation and maintenance costs for the major renovations at Service High School and the opening of the new Begich Middle School.

Operation and Maintenance

- Opening of Begich Middle School - (\$2.230 million); and addition/renovation to Service High School (\$156,000)

Staffing Reductions based on Lower Enrollment – Staffing reductions due to declining enrollment - 12 FTE (\$939,800)

Major Expenditure Reductions – The major program reductions/eliminations and the positions that were required to be eliminated in the FY 2007-2008 budget in order to bring expenditures in balance with projected revenues are as follows:

- Pupil to classroom teacher staff ratio (PTR) increased 1.5 in all grade levels - 83.5 FTE (\$5,624,000)
- Reduced Teacher positions that supported class size reductions - 12.9 FTE (\$869,000)
- Outsource high school boys hockey - (\$244,400 net amount to include reduced High School Activity Fee revenue)
- Eliminated High School Principal -1 FTE (\$132,300)
- Eliminated Elementary Assistant Principal -1 FTE (\$132,300)
- Eliminated Teachers for Middle School Zero Hour Pre Algebra - 2 FTE (\$156,000)
- Reduced R.O.T.C Position - 1 FTE (\$58,000) net amount to include reduced revenues
- Eliminated one (1.0) Library Assistant at each of each high school that currently has two - 5.25 FTE (\$221,200)

- Eliminated all Library Assistants at the middle school level - 8.312 FTE (\$393,500)
- Reduced one-half Custodian at each of the comprehensive high schools - 4.0 FTE (\$160,500)
- Reduced teaching positions and supplies in the Gifted Program - 2 FTE (\$182,500)
- Reduced Bilingual Tutors - 4.375 FTE (\$176,300)
- Closure/redirection of students who attend the AVAIL program to other existing alternative programs in the District including building rental and parking - 1 FTE (\$101,200)
- Eliminated Youth Reception Center/Covenant House - (\$50,000)
- Reduced teacher/parent outreach home visits with the Native Community (AFACT) and other outreach programs - (\$35,000)
- Eliminated Senior Administrative Clerk in Accounting - 1 FTE (\$48,000)
- Eliminated Senior Administrative Clerk in Purchasing - 1 FTE (\$48,000)
- Reduced Elementary Summer School - (\$150,000)
- Reduced at the elementary level the Battle of the Books - (\$15,000)
- Reduced Houghton - Mifflin implementation - \$500,000
- Reduced Added Duty Addendum for interscholastic activities in elementary schools - (\$123,300)
- Reduced Elementary school supply/equipment allocation by five percent - (\$109,000)
- Eliminated Middle Level Summer School Enrichment program - (\$61,667)
- Eliminated Middle Level After School Tutoring - (\$90,000)
- Reduced High School Summer School Program - (\$52,450)
- Reduced funding for Learning Interventions - HSGQE (\$100,000)
- Reduced Nurse .5 FTE each at SAVE and Benny Benson - 1 FTE (\$78,500)
- Eliminated a Curriculum Administrative Assistant position .5 FTE - (\$23,100)
- Reduced Added Days and Added Duty for training for professional development - (\$89,500)
- Eliminated Statistician position - .5 FTE (\$36,900)
- Reduced printing and advertising services - (\$91,400)
- Reduced commercial security services - (\$25,000)
- Reduced Warehouse Extra Help - (\$34,500)
- Eliminated Community Resources Administrative Assistant and added a five hour Secretary position - (net reduction of .375 FTE and \$33,200)
- Reduction between phases of the Student Information System - (\$735,000)

ASD Education Center Consolidation Savings

- Courier - 1FTE (\$51,600)
- Custodian - 1FTE (\$40,800)

Major Expenditure Enhancements—Other program changes that will enhance departments across the district and the community are as follows:

- Purchasing Pilot Program through the Cooperative Services Authority - \$250,000 with estimated \$250,000 savings in purchasing supplies/equipment for \$0 net cost
- Disaster supplies for Begich Middle School, a designated shelter site - (\$25,000)
- Preventative maintenance of emergency preparedness portable generators and annual inspection of emergency preparedness boilers - (\$130,000)

Other Position Increases—The following program positions were added due to program positions being transferred from grant funding, the essential need to support the schools' large increase in the use of technology, or to provide better service to the community:

- Social and Emotional Learning/Change of Heart Program - .8 FTE (\$61,600) previously grant funded
- Educational Technology - added one Micro Systems Specialist II - 1 FTE (\$77,100); other positions in this cost unit were transferred from Instructional Technology
- Information Technology positions for support in the schools - one (1.0) programmer, one (1.0) Technology Support II, seven (7.0) Technology Support I - 9 FTE (\$551,800)
- Administrative Assistant for Middle Level (.75 FTE) and District Accountability (.25 FTE) - (\$47,850)
- Custodian position for the elementary schools - 1 FTE (\$35,200)
- Special Education teacher assistants - 32.125 FTE (\$1,250,000)
- Special Education support staff: High School Program Specialist, Microcomputer Specialist, Health Treatment Specialist - 3 FTE (\$162,700)
- Principal for Providence Heights and Special Schools - 1 FTE (\$123,650)
- Health Services Nurse positions for elementary schools and alternative programs - 6 FTE (\$465,200)

OTHER FUNDS

Food Service Fund—This fund is used to budget and account for operations of the Student Nutrition Program. The FY 2007-2008 budget has been increased

from \$15.0 million to \$16.322 million. The budget for this fund covers both the direct and indirect cost of providing meals to students. These costs include all payroll costs, including increased hours for staff, food costs, the cost of support services, equipment repair and replacement costs, and overhead charges. Compensation provisions for completed contracts, and upward movement in food costs have been included in the projections. The major portion of the increase is due to the mandatory retirement rate increase for the Public Employees' Retirement System from 24.25 percent to 40.89 percent.

Based on the Governor's proposed FY 08 budget, funding for the retirement rate increase has been added as a new State revenue item titled "Supplemental State PERS Funding". The other major revenue sources for the Food Service Fund budget include revenue from meal sales, Federal reimbursement for meals served, and the undesignated fund balance. This budget projects increases in meal sales and reimbursement revenue.

The Administration is recommending the use of the Food Service undesignated fund balance for the FY 2007-2008 Food Service Fund budget. The undesignated fund balance for the Food Service Fund as of June 30, 2006 was approximately \$857,000. Use of the undesignated fund balance of \$193,000 is being recommended to support the FY 2007-2008 Food Service budget. This will leave an approximate amount of \$664,500, which is 4.07 percent of the FY 2007-2008 Food Service Fund budget as presented in this memorandum. **A \$.25 per meal increase in elementary, middle and high school breakfast and lunch full price meals is required and will be directed towards the procurement and providing of healthy choice menu items.** It is projected that no local tax support will be required for the Food Service Fund in FY 2007-2008.

Debt Service Fund—This fund is used to budget and account for principal and interest payments on existing school bonds as well as the revenues necessary to fund these expenditures. Some of the District's bonds receive State debt reimbursement which varies depending on the year in which the bond proposition was approved. Due to savings incurred from the sale of new bonds at lower than anticipated interest rates and refinancing outstanding bonds, the District is able to use accumulated fund balance as a revenue source. The two April 2007 bond propositions approved by the School Board and scheduled for public hearing before the Assembly on February 13, 2007 have not been included in the projections.

Local / State / Federal Grants Fund—Expenditures in the Local/State/Federal Grants Fund are offset by matching revenues. The District continues to be successful in increasing grant funding from various State and Federal agencies and other sources. Revenues available through grants for these projects include

competitively awarded grant funds – most of which are subject to annual federal and State appropriations. It is projected that budgets for FY 2007-2008 grants may increase approximately \$1.0 million based on discussion with grant writers. In addition, the Local/State/Federal Grants Fund has been increased to reflect the retirement rate increases. In order to not penalize programs funded by the grants and based on the Governor’s proposed FY 08 budget providing funding for all classified and certificated salaries including those paid from grant funds, a Supplemental State PERS/TRS Funding revenue source has also been added to the grant fund.

FISCAL YEAR BUDGET COMPARISON

The following schedule compares by fund the FY 2007-2008 projected revenue/expenditures with those currently approved for FY 2006-2007. At this time, unknowns still remain such as contract negotiations and mandated services that may require funding.

REVENUE/EXPENDITURE BUDGETS

	Revised Budget <u>FY 2006-2007</u>	Preliminary Budget <u>FY 2007-2008</u>	% Over /(Under) <u>Prior Year</u>
General	\$ 473,432,647	\$ 547,275,403	15.60%
Food Service	15,000,000	16,322,000	8.81%
Debt Service	77,310,215	79,206,014	2.45%
Local/State/Federal Grants	<u>49,000,000</u>	<u>55,735,000</u>	13.74%
All Funds	<u>\$ 614,742,862</u>	<u>\$ 698,538,417</u>	13.63%

TAXES

	Revised <u>FY 2006-2007</u>	Preliminary Budget <u>FY 2007-2008</u>	<u>Increase</u>
General Fund	\$ 155,257,376	\$ 169,863,963	\$14,606,587
Debt Service	<u>36,344,912</u>	<u>37,328,009</u>	<u>983,097</u>
All Funds	<u>\$ 191,602,288</u>	<u>\$ 207,191,972</u>	<u>\$15,589,684</u>

STUDENT ENROLLMENT PROJECTIONS

	FY 2006-2007 Actuals <u>Sept. 30, 2006</u>	FY 2007-2008 Projected <u>Sept. 30, 2007</u>	Change Over Prior <u>Year's Actual</u>
Enrollment	49,068	48,848	(220)
Full Time Equivalent (FTE)	48,816	48,580	(236)

In preparing the FY 2007-2008 Financial Plan, some of the budget development uncertainties still facing the District are:

- Legislative action
- Funding for the ARMB approved percent rate increase to the certificated and classified retirement systems
- Adjustment to the Base Student Allocation— current funding level - \$5,380
- Continuation of the School Improvement Grant funding
- Continuation and/or increased implementation of the ISER proposed district area cost differentials
- CPI and 5-year average population growth used for local tax limitation not finalized until February 2007
- New construction and assessed valuation used for local tax limitation not finalized until March/ April 2007
- Federal Impact Aid subject to annual appropriation
- Contract negotiations for AEA (Anchorage Education Association), and for APA (Anchorage Principals Association), and consideration for Exempt personnel
- Rate increase notifications from outside agencies
- Projected enrollment
- Deployment of military personnel and the relocation of their families
- Sustainability of student activity sports program due to loss of revenue from vending machines
- Further evaluation of current/new fees
- ESEA-No Child Left Behind requirements
- Assessment/Testing impact
- School Board areas of interest
- Budget Review Teams, community, staff, and students selected recommendations
- Six -Year Instructional Plan
- Continuation of State of Alaska Quality Schools Initiative
- Implementation of Technology Plan and new Student Information System

SUMMARY

Our assumptions in preparing the FY 2007-2008 Preliminary Financial Plan are based on, but not limited to, the following criteria:

- Balanced budget for presentation to the Anchorage Assembly— Expenditures equal Revenues
- Alaska Public School Funding Program—No change in the base student allocation of \$5,380
- State providing funding for the ARMB approved rate increase to the certificated and classified retirement systems
- Continuation of the \$3.994 million School Improvement Grant funding
- Quality Schools Grant—no increase to per pupil amount of \$16
- State Pupil Transportation Reimbursement—current State formula which does not include a cost of living adjustment (COLA)
- Local Property Taxes—Full amount available under the property tax limitation
- Use of Fund Balance as a revenue source—Using \$3.225 million will bring the undesignated fund balance to 3.0 percent of the \$547.275 million FY 2007-2008 Preliminary General Fund which still includes honoring the agreement with the Municipality to maintain a fund balance in the General Fund at year end in an amount equal to or greater than 8.25 percent of total General Fund revenues from local tax appropriations to enhance the Municipality's bond rating.

The budget development process is a work in progress and will be subject to change as the process moves along through June 2007. At this time the Administration has prepared the FY 2007-2008 Preliminary Financial Plan with the most current information known at this time. As the Legislature addresses bills related to school funding and information related to the local tax limitation is finalized, adjustments and refinements will be made. We will continue to encourage the Legislature and Assembly to provide adequate funding so that all students receive an excellent education, which can only be achieved if we have adequate resources to continue and improve our programs and to attract and retain our quality employees.

Attachments

CC/JS/MSL

Prepared by: Marie S. Laule, Budget Director
Approved by: Janet Stokesbary, Chief Financial Officer