

Davenport Community School District

Five Year Financial Plan (2003-04 through 2007-08) Executive Summary

Overall Goals

The *financial* goals of the Davenport Community School District are designed to ensure the district's sound financial condition at all times.

1. *Keep the district in a fiscally stable position in both the short and long term*
 - a. All operating revenues and expenditures shall be monitored and when necessary, adjusted to ensure expenditures do not exceed revenues over time.
 - b. On-going operations of the district shall be funded from ongoing revenues.
 - c. Five-year budget projections shall be prepared annually.
 - d. Budget initiatives shall be evaluated as part of the five-year budget projection.
 - e. Revenues should be conservatively projected, and expenditures budgeted at 100% to help ensure solvency.
 - f. The district should adopt new initiatives only when adequate funding is made available.
2. *Establish accountability in budget monitoring*
 - a. The district shall set budget at the department and building level.
 - b. Department and building administrators are responsible for managing their budgets within the appropriated total budget.
3. *Adherence to Best Accounting and Management Practices in conformance with generally accepted accounting procedures as applied to governmental units, and standards of the Governmental Accounting Standards Board and Government Finance Officers Association.*
4. *Provide Financial Reports in a Timely and Understandable Manner*
 - a. Monthly budget reports outlining expenditures shall be available to all department and building administrators.
 - b. Quarterly financial reports discussing major trends, the status of the district's financial operations, and other related information shall be distributed to the board.
 - c. The district's budget document shall be presented in a format that provides for logical comparison with prior years whenever possible.

Financial Principles

1. A balanced budget should be prepared annually by the CFO and forwarded to the board for consideration.
2. Ongoing operating costs should be funded by ongoing revenue sources. This protects the district from fluctuating service levels and avoids concern when one-time revenues are reduced or removed. In addition:
 - a. Cash balances should be used only for one-time expenditures.
 - b. Local, state and federal grants should not support financially essential district services. Grant monies should be tied to programs and services with the understanding that those services delivered with grant funding may be revised and altered based on grant funding availability.
3. The CFO should forward to the board monthly financial reports identifying meaningful trends in both revenues and expenditures.
4. Department and building administrators are responsible for management departmental budgets within the total appropriated budget.
5. Financial Trend Indicators should be prepared and reviewed annually to determine the district's financial condition.
6. General Fund balance should be targeted at no less than **10%** of operating expenditures.
7. A five-year financial forecast should be developed annually to react to changes and to accommodate regulatory and legislative mandates.
8. Enterprise Funds should be self-sufficient. They should include at least three months expenditures for operations and maintenance. Enterprise Funds should be charged for indirect administrative costs performed by other DCSD departments.
9. User fees for all operations should be reviewed annually to ensure rates defray operating costs, and in the case of Enterprise Funds to ensure that revenues generate sufficient funds to cover the cost of services.
10. The district should maintain a bond rating of no less than "A" from Moody's Investors Service. Bonds which are rates "A" possess many favorable attributes and are to be considered as upper medium grade obligations.
11. The district shall annually prepare a Comprehensive Annual Financial Report and should seek recognition from the Government Finance Officers Association (GFOA) by applying for and receiving the organization's Certificate of Excellence in Financial

Reporting. In addition, the district should seek recognition by applying for and receiving the GFOA Distinguished Budget Presentation Award.

Objectives

A district should have an adopted set of financial goals. These can provide guidance on what the expectations are regarding fund balances, tax policy, investment goals, and other matters. The following are some strategic financial objectives and goals that might be used in preparing a financial plan:

- Develop a reasonable financial projection for the next five years
 - * *Goal: Present a five year plan that provides for a fund balance and unspent balance of no less than 5% of annual expenditures by the end of the 2007-08 school year*
- Build the size of the fund balance to an acceptable level
 - * *Goal: To achieve a financial solvency ratio of 5%*
 - * *Goal: Improve financial health of district each year until the fund balance is 10% of expenditures for the year*
- Balance the budget
 - * *Goal: If enrollment declines, expenditure reductions will be made equal to the amount of per pupil funding associated with the decreased enrollment*
 - * *Goal: When the percent of allowable growth set by the state puts the district at budget guarantee, the district will reduce expenditures equal to the amount of anticipated costs of operation for the year.*
- Keep taxes competitive with neighboring districts
- Evaluate programs or services that could be reduced, eliminated, privatized or outsourced
 - * *Goal: Annually the district will review a minimum of one area for privatization*
- Price services to cover costs
 - * *Goal: Fee schedules will be reviewed annually to ensure program costs are covered by fee schedule established*
- Disclose financial results
- Remain competitive both in services and taxes
- Provide adequate financial stability and flexibility to meet strategic opportunities in a rapidly changing and growing region

Assumptions

A forecast is only as good as its assumptions, and assumptions are subject to change. It is key to disclose the assumptions underlying the financial forecast.

Revenue Assumptions include:

- Enrollment projections
- State % of allowable growth
- Instructional support levy
- Miscellaneous Income
 - Categorical funding
 - Non-categorical funding
- Cash reserve levy
 - Backed with spending authority
 - Cash reserve only

Expenditure Assumptions include:

- Negotiation settlements (including insurance costs)
- Staffing pattern changes
- Cost of contracted services
- New, reduced or expanded spending programs
- Unfunded mandates

Components of the Plan

The main components to a successful 5-year plan must include the following areas:

1. Revenues
2. Expenditures
3. Unspent Balance
4. Levy history and projections
 - Operating fund levy
 - Management fund levy

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Operating Fund Revenues

Chapter 442 of the Iowa Code establishes the foundation program to provide a level of resources and revenues to local school districts. The foundation program provides for state aid plus two property taxes: the foundation or uniform levy and the additional property tax. The two property tax revenues and state aid comprise a district's controlled budget. Additional sources of revenue for a district are miscellaneous income and unspent balance from the prior year. A district may also levy a separate property tax levy for cash reserve.

Revenue projections are based on the current Aid & Levy worksheet, using assumptions as noted. Those assumptions include:

- Enrollment projections
- State percentage of allowable growth at 2%
- Assessed valuations increasing by 3%.
- Instructional support levy remaining at 10% of regular program district cost
- Miscellaneous income increasing incrementally over the year due mainly to the income received from state and federal funding for grants.
- Cash reserve levy – SBRC: being levied to cover costs associated with ESL and open enrollment
- Cash reserve levy – other: being levied in lieu of early retirement offerings through the management fund and for cash reserve to offset fund balance deficit

The major component determining revenues over the next five years is enrollment. It is projected to decline over the next five years. This reduces the amount of realized allowable growth to the district. Declining enrollment combined with 2% allowable growth for the next five years will put the district in budget guarantee in fiscal 2005-06, 2006-07 and 2007-08. The district should levy cash reserve to make up the loss in funding by the state of the 2% allowable growth.

The enrollment projections are based on an average cohort survival methodology. Grades one through twelve are projected using a ten-year average of cohort survival ratios. Kindergarten enrollments are estimated using a ratio of birth data to kindergarten enrollments five years later. This information was forwarded from the Department of Education, State of Iowa. Dr. Xiaoping Wang, Bureau of Planning, Research and Evaluation compiled the data for the state.

While the district has virtually no control over the enrollment or amount of allowable growth as set by the state, we do have control over several other, though minor, components to revenue funding.

The board of education has approved the instructional support levy at the maximum funding level of 10% of regular program district costs through the 2006-07 school year. This amounts to over \$6,000,000 a year. The district needs to consider extending this levy for an additional five years after the 2006-07 school year.

Miscellaneous income is a large factor in determining revenues in the district. The most significant factor over the next five years will be the amount of revenue received from local, state and federal sources for grants. However, grant revenue does not help the district's bottom line as grant revenue is available only for the express purpose written into the grant and cannot be used to supplant any funding currently provided by general fund.

The district does have several sources of income that are not tied to any specific expenditure item. These areas are typically fees for service. While the district is not in the business of making a profit, we do need to be prudent in monitoring costs associated with services and ensuring fee schedules set cover those costs. Those areas include:

- Service fees (cover textbook costs)
- Summer school/adult and community education fees (cover program costs)
- Driver education fees (cover program cost)
- Paid conditional bus fees
- Building usage (cover custodial and overhead costs)
- Brady Street Stadium rental (cover custodial and overhead costs)
- Investment income
- ASC rental income
- Overhead on grants

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Operating Fund Expenditures

All expenditures shall be monitored and when necessary, adjusted to ensure expenditures do not exceed revenues. The operating fund expenditures must not exceed the authorized maximum budget as determined by the foundation formula. The operating fund expenditures (non-categorical) can not exceed non-categorical funding and rely upon the categorical unspent balance to keep from exceeding budget authority.

When enrollment declines in the district, the allowable growth is not fully realized since our funding is based on our student enrollment. When contracts are negotiated, they are typically negotiated at or above state allowable growth. The difference realized by the district results in a decline in fund balance, unspent authority and contributes to overspending. While the district's enrollment continues to decrease, expenditures must be reduced in alignment to the funding not realized because of the decline.

The district needs to monitor and review the open enrollment requests out of district. Every student that open enrolls to another district takes with them the per pupil amount of funding, with a potential for thirteen years of funding leaving the district. Currently there are approximately five students leaving the district for every one student entering. This is a very expensive cost to the district. Every effort needs to be made to keep students and attract students to the district.

In the past, the district implemented new curriculum initiatives and programming without associated new funding. All new curriculum implementation and programming deemed beneficial to students must either replace less effective programming or be implemented with an attached funding source. The district needs to continue evaluating programming needs and costs associated with it. Increased costs associated with programming without attached funding contributes to overspending in the district.

The district also experiences the loss of funding by state and/or federal grant sources for programs implemented in the district. Examples include the state eliminating technology funding in 2002-03. Programs currently funded by state and/or federal sources that will experience a reduction or loss in funding need to be evaluated and funding identified for the program's continuance or plans made to phase out the programs.

Outsourcing must be periodically evaluated for cost effectiveness. Transportation was identified several years ago as a cost-effective measure to take and other services must also be reviewed either to identify cost efficiencies already in place or to determine if outsourcing is a viable alternative for savings. Contracting out services currently offered by the district should also be evaluated for cost savings. The district currently contracts

out services for substitute teacher calling, some grounds keeping duties, painting, laundry, and security courier services.

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Unspent balances

The purpose of an unspent balance (spending authority) is:

1. The ability to meet emergency spending
2. The ability to meet expenditures needs during years of declining enrollment without mandatory expenditure reductions

During the 2001-02 school year the state made an unprecedented move in reducing state aid mid year by 4.3% or approximately \$2.7 million for the district. Without cash reserves, the district was forced to make layoffs and other district wide budget reductions.

As is evident in the history of authorized budget authority, the amount of unspent balance has declined in recent years. When the district converted to accrual accounting (from cash basis) several years ago, the unspent balance was decreased by the amount of accrual entries. That combined with annual overspending of revenues has lead to a decreased unspent balance.

The district should maintain at least a **10% unspent balance**. The statewide average of unspent balance generally stays around twelve percent of expenditures. An unspent balance is available for spending only once. After it is gone, there are only two ways to get it back:

1. By under-spending your authority
2. By obtaining additional spending authority through the School Budget Review Committee

Unspent balance should not be included in the annual budget as it is a one time funding source.

There are several documents the district has which can provide information and direction in accomplishing this goal:

1. Aid & Levy worksheet – helps to determine funding authority
2. Unspent balance notification from the Department of Management – helps determine operating fund authority and SBRC approvals for allowable growth
3. Certified Budget – budget expenditures limit
4. Certified Annual Report – provides total expenditures and fund balances
5. Annual Audit – verifies annual financial reports
6. Comprehensive Annual Financial Report – includes an overview of financial statements with at least ten years of historical data

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Levy History and Projections

The district property tax levies include:

1. general operating fund
2. management
3. physical plant & equipment – voter approved
4. physical plant & equipment – board approved

The tax levy rate rose to \$16.96 in 2002-03 with the largest increase coming in the cash reserve levy. This was in response to the state's mid year 2001-02 budget reduction, providing funding for the amount the state will under fund the 1% allowable growth in 2002-03, budget guarantee, early retirement incentives and liability insurance cost increased and building a cash reserve. The district increased the tax levy again for the 2003-04 school year in an effort to raise additional cash reserve to be applied to reducing the fund balance deficit.

Within the next five years, the district is projected to be in budget guarantee for three of those years. Cash reserve should be levied in equal amounts to fully fund the districts allowable growth.

In comparing Davenport to other districts, it is important to consider the relative ability of a district to fund school operations:

- The availability of funding is dependent upon approval of the board and voters within the district.
- The relationship between the number of students in a district and the district's property valuation significantly affect the general fund tax rate.
- Variations in property tax rates, district income tax, valuation, local option sales tax availability and specific levies, chosen may cause considerable disparity between districts in taxes yielded from a specific levy.

Within the general operating fund is the instructional support levy, which is being levied at 10% of the regular program cost for the district. Upon implementation of the instructional support levy, the district switched the levy from cash reserve to instructional support levy in order to realize the matching funds provided by the state within this program. The district has historically levied a flat dollar amount in the instructional support program. In 1999-2000 the district switched its levy to 10% of regular program district cost and in 2001 the board approved the 10% level for the next five years. This will provide the optimum amount of funding for the district.

The district needs to maintain a cash reserve at a level no less than 12% in order to provide for unexpected cash needs throughout the school year and to provide for a cash reserve in the unlikelihood of the state once again reducing funding mid year.

Budget Simulations

Budget simulations are presented in four major areas: Revenues, Expenditures, Unspent Authorized Budget and Fund Balance.

Revenues

The Aid & Levy worksheet was projected using enrollment projections provided by the University of Iowa. State allowable growth was projected at 2% through 2007-08. Using both of these assumptions, the district will be in budget guarantee for three of the next five years. The cash reserve levy includes an amount equal to the funding needed to bring the district into budget guarantee.

The instructional support levy is set at 10% through 2007-08 and the cash reserve levy has been established at a level that will not increase the district's tax levy over the next five years.

Miscellaneous income is the one factor over which the district has some discretion. This is determined by grant funding and miscellaneous income into the district such as fees. It is recommended that all fees be reviewed on an annual basis to ensure the costs of associated programs are covered.

Several state funded areas have not been included in revenue projections beyond the 2003-04 school year. Those include monies associated with the Iowa Early Intervention Fund and Teacher Quality funding. Federal funding for Reading First is scheduled to run out at the end of the 2005-06 school year. Additional grants from local, state and federal sources have not been identified in future revenue projections.

Expenditures

Expenditures are projected at 100% of anticipated funding. Salary and benefit projections have included a 4% increase for 2003-04 and a 3.5% increase in the next four years. If settlements cannot be reached at that level, appropriate reductions will need to be made in order to stay within a balanced budget.

The budget for utilities is based on a 10% increase each year. Rates continue to fluctuate each year as well as utilization. Tuition is projected to increase at 3.5% each year. Annual increases have been greater than this, but changes to district policy are projected to reflect a smaller increase than in previous years.

Site based budget are enrollment based and not projected to increase over the next five years unless a shift is made in accountability from the central office to the site. Discretionary/miscellaneous expenditures are projected to increase by 10% each year. The expenditures associated with our transportation contract are projected at a 4% increase. This is included in our contract with First Student which runs through 2003-04. Transportation services will be out for bid again for the 2004-05 school year and contract costs could exceed the 4% projected increase.

Categorical, or restricted funding areas are projected based on local, state and federal funded areas. Categorical funds include funding for: special education, talented & gifted, dropout prevention, AEA pass through, and other restricted revenues.

Reductions amounts are listed for the next four years. Reductions will be required in order to meet the financial goal of a 5% fund balance by the end of 2007-08 and a solvency ratio of at least 5%. Reductions are also needed in order to move toward the financial goal of a 5% unspent balance.

Unspent Authorized Budget

The maximum authorized budget and expenditures are the two key components to determining a district's unspent balance. The components from the Aid & Levy worksheet have been inserted into the spending authority worksheet to determine unspent balance for the next five years. The unspent balance is projected to remain positive, but at a minimum level. The district's financial goal of having an unspent balance of at least 5% by the end of 2007-08 will require either an increase in revenues or a decrease in projected expenditures beyond what is being proposed.

The unspent balance does not include amounts levied through the cash reserve unless the cash reserve levy was approved by the School Budget Review Committee (SBRC). The district's fund balance includes all cash levied through the cash reserve. The difference between the amounts is what creates the widespread difference in the district's fund balance projections and the unspent balance projections. While financial statements prepared focus on the district's financial health as determined by the district' fund balance, the State of Iowa is concerned with a district's unspent balance. By Code of Iowa, it is illegal to overspend your budgeted spending authority.

Fund Balance

The information projected contains the estimated revenues and expenditures over the next five years. The fund balance also incorporates the recommended budget adjustments through 2007-08. If the cash reserve levy remains at projected levels, the district could have a fund balance at the end of 2007-08 school year that would be the highest ever.

Summary

The district will be operating with a budget for three straight years that will generate no additional funding from the state, and will be in a state of budget guarantee. This will result in budget adjustments required in order to stay within spending authority and to maintain a positive fund balance. These assumptions are built on a declining enrollment and a state percent of allowable growth at 2%. Fluctuations in either of these components will change the financial forecasts and additional adjustments will be needed.