



# Draper Notes

December 1, 2015

## **District Budget Analysis**

Florida Association of District School Superintendent

November 9, 2015

To help determine the financial condition of the District, Superintendent Gary had members of the staff forward a large number of District financial reports for examination. Many of the documents were extremely lengthy and very detailed.

It was determined that to address the request of the Superintendent in the most direct and efficient way, a better approach would be to focus on Board approved documents that included district-level summary totals for the revenue and expenditure functions and objects, as defined by the Florida Department of Education, that comprise the District's operating budget. For the purposes of this study the documents upon which the most attention was focused included three years of the School Board's final approved budget, and the District's Annual Financial Report (AFR) as approved by the Board, and a District prepared and Board approved document that was a compilation of approved amendments to the budget for fiscal year 2015-2016 that had been adopted in the period from July 1 through September 30, 2015.

A spreadsheet was prepared that displayed and compared the appropriate totals of revenues and expenditures for the operating budget from fiscal year 2013-2014 through 2015-2016 as reported in the final Board approved budget and the Board approved AFR. The final sets of data used were derived from the budget amendments for the period from July 1, 2015 through September 30, 2015.

While analyzing the data in the spreadsheet it is important to recognize that recurring revenue does not include revenue from the District's fund balances. It is also important to understand that when recurring expenses exceed recurring revenues, and the District uses assets from fund balances to pay the difference, in a very real sense the District does not have a balanced budget. If the recurring expenses are not brought at least into balance with recurring revenues the District will eventually run out of fund balances and what has been, in effect, a pattern of deficit spending will leave the District in a negative financial position.

As the spreadsheet shows, the Final Adopted Budget for fiscal year (FY) 2013-2014 projected total recurring operating budget revenues of \$34,999,837.13. Recurring expenses planned in the budget totaled \$41,125,962.11. Based on the adopted budget, the District planned to spend \$6,126,124.98 more for operating expenses than it was projected to receive in recurring revenue.

The AFR for FY 2013-2014 reported recurring operating revenues of \$35,656,913.62 and recurring operating expenses of \$38,255,111.45. Clearly efforts were made to lower the actual operating expenses and operating revenues were higher than projected in the approved budget. Nevertheless, the District still reported recurring spending that was \$2,598,197.83 more than the recurring revenues that were collected. If the gap between recurring operating revenues and recurring operating expenses were to continue at that level, the district would be projected to be close to or below the statutory levels of reserves in FY 2015-2016 and be in a deficit position in FY 2016-2017.

Despite this situation at the end of FY 2013-2014, the FY 2014-2015 adopted budget projected recurring operating budget revenues of about \$36,229,961.16 and projected recurring operating budget expenses of \$40,363,058.95. The approved final budget included \$4,133,097.79 more in projected recurring operating expenses than projected recurring operating revenues. While that gap was about \$2 million less than the gap in the prior year final budget, it was still a non-sustainable financial position.

In the FY 2014-2015 AFR the actual recurring operating revenue reported was \$37,276,487.59 and the actual recurring operating expenses totaled \$39,422,354.75. Again the District was able to spend less than budgeted and collect more revenue than was projected. Initially it was expected that expenses would exceed revenue by \$4,133,097.79. The actual final recurring expenditures were \$2,145,867.16 more than final recurring revenues. While this was an improvement over the budgeted projections it is still not a sustainable financial position for the District.

In the FY 2015-2016 final adopted budget, the District projected \$37,827,266.78 in recurring operating budget revenue. The beginning fund balance, which was \$9,274,214.79 in the FY 2013-2014 budget, was projected to be \$4,400,322.53 two years later in the FY 2015-2016 budget. The operating budget expenditures were projected to be \$39,805,763.89. The projected operating budget recurring expenditures exceeded the projected operating budget recurring revenues by \$1,978,497.11. While this was the lowest negative balance in the three-year cycle it is still not sustainable. The projected year-end fund balance in the budget was \$2,420,825.42. That fund balance would be about 6.4% of the operating budget recurring revenue.

However, another year of operating expenses \$2 million higher than operating revenues would project a FY 2016-2017 ending fund balance of about \$400,000, which is about one percent of operating revenues. That would mean the District would be in violation of s. 1011.051 (2) of Florida Statutes for FY 2016-2017, with the requirement to successfully execute a financial recovery plan.

The budget amendments to the FY 2015-2016 final budget adopted in the period from July 1 through September 30, 2015 have made the District's fiscal current fiscal situation worse. The

budget amendments reported state FEFP funds of \$21,138,977. The sum reported in the budget amendments is the amount of state FEFP funds in the Second Calculation of the 2015-2016 FEFP. It was also the amount included in the tentative budget reported at the first public hearing on the budget approved on July 28, 2015. It is the correct current projection of the state FEFP revenue for the District.

The tentative budget adopted on July 28 included the correct amount of projected local funds from the FEFP, \$7,861,135. That was the amount of local funds in the Second Calculation of the FEFP.

The final budget adopted by the Board on September 11, 2015 used projections from the First Calculation of the FEFP for state and local FEFP revenues. Those totals were \$20,471,104 and \$8,503,109 respectively. It is unknown why the final adopted budget was prepared with out of date FEFP revenue amounts taken from the First Calculation.

However the budget amendments did not correctly report these revenues either. The total recurring operating budget revenue in the adopted budget amendments was \$38,529,238.89. This total included \$34,099.11 of increased miscellaneous revenues. It also included projected local FEFP revenues of \$8,503,109. That was the amount projected in the First Calculation of the FEFP. It was the amount reported in the final adopted budget, adopted on September 11, 2015. It is not the correct amount to be used by the District. The budget amendments reported state FEFP revenues of \$21,138,977. This is the correct amount based on the second calculation. However, the increase in state FEFP revenue in the second calculation of the FEFP is accompanied by a decrease in local funds from the FEFP, which was **not** reflected in the budget amendments.

The correct operating budget recurring revenue should be the total in budget amendments of \$38,529,238.89 minus the decrease in local FEFP revenue of \$641,974 (\$8,503,109-\$7,861,135) for total projected, budgeted recurring operating budget revenue of \$37,887,264.89.

In addition to the corrected total recurring revenue of \$37,887,264.89, the budget amendments project a beginning fund balance of \$4,400,322.53, for total available revenue of \$42,287,587.42.

The budget amendments stated that the beginning projected operating expenditures were \$39,806,763.89. That was the amount of the projected expenditures in the tentative budget approved on July 28, 2015. The amount of projected operating expenditures in the final adopted budget was \$39,805,763.89. The reason for the difference between the two expenditure amounts is unknown.

If we assume the initial expenditure amounts in the budget amendments were correct, the budget amendments increased projected expenditures by \$1,711,480.49 to a total of \$41,518,244.38. If the revenue projections in the budget amendments, corrected for consistency with the Second Calculation of the FEFP are accurate, and the expenditures in the adopted amendments are correct, the total available revenue, including fund balance of \$42,287,587.42 minus new projected expenditures of \$41,518,244.38 leaves a projected ending fund balance of \$769,343.04. That is a projected fund balance of 2.03%.

In the final adopted budget, there was a projected, non-spendable fund balance of \$11,011.05, and a restricted fund balance of \$1,033,748. If those projections are accurate, the ending fund balance projected for June 30, 2016 will not be in compliance with s. 1011.051 (2) as provided below:

“1011.051 (2) If at any time the portion of the general fund’s ending fund balance not classified as restricted, committed, or nonspendable in the district’s approved operating budget is projected to fall below 2 percent of projected general fund revenues during the current fiscal year, the superintendent shall provide written notification to the district school board and the Commissioner of Education. Within 14 days after receiving such notification, if the commissioner determines that the district does not have a plan that is reasonably anticipated to avoid a financial emergency as determined pursuant to s. 218.503, the commissioner shall appoint a financial emergency board that shall operate under the requirements, powers, and duties specified in s. 218.503(3)(g).”

One percent of the recurring operation budget revenue is \$378,254, two percent is \$756,508, and three percent is \$1,134,762. Unless there is information in the District to provide for a different calculation of assigned and unassigned projected June 30, 2016 ending operating budget fund balance resulting in a total of more than \$1,135,000, it is recommended that the Superintendent notify the Board and the Commissioner of Education that the District projects an ending fund balance below two percent, and that the Superintendent include in the letter details of a financial recovery plan that will reduce expenses sufficiently to insure the district will be in compliance with s 1011.051 before year end.