

# The Future Isn't Clear. Our Priorities Are.

Board Work Session  
FY 2014 Budget Development  
April 2, 2013

Thomas Harper, CFO



Think. Learn. **Grow.**

[www.dmschools.org](http://www.dmschools.org)

# AGENDA

- **Education reform and funding status**
- **Planning scenarios**
- **Recommendations**
- **Next Steps**

# Legislative Update

## Education Reform and Funding Status

# Legislative Update

## Education Reform Proposals:

### Allowable Growth

- HF 215 has 2%AG for FY2014 and FY 2015 including categoricals
- SF 423 has 4% AG for FY2014 and FY 2015 including categoricals
- SF 423 repeals sunset of Early Intervention Class Size program language
- SF 423 was approved

# Legislative Update

## Education Reform Proposals

- ❑ Best case scenario: Senate insists on 4% and House insists on accountability provisions of assessment and element of student learning in teacher evaluation.
- ❑ Worst case scenario: House insists on accountability provisions but Senate says no, with lack of compromise, there is no other vehicle for Allowable Growth.
- ❑ Don't for get the Governor: Zero AG in his budget and insistence on significant education reform before he'd consider it.

TOPIC	ASSUMPTION FOR FY 2014 – 2014 at <u>0%</u> A.G.
Law; Policy governance; Board budget parameters	Will follow budget law, policy governance management limitations (see Appendix A) and board budget parameters (see page one)
GAAP – generally accepted accounting principles	Budget will be in accordance with GAAP.
Allowable growth (AG)	0% AG – the increase in the cost per student for current year.
Certified Enrollment	32,062; 561 more students which is a 2% increase over the prior year.
Cost per Student	\$6,069 – a 0% increase over the prior year and fully funded.
Property valuations	Estimates indicate general taxable property valuations will increase 2.4% and PPEL taxable valuations will increase 2.6%; final valuations not available until June 2013.
State property tax relief	Will continue to receive increased state aid to replace property taxes and thereby reduce property taxes applicable to the district, per state law.
Cash Reserve Levy	Recommend maintaining current level until state sets allowable growth for FY 2014.
Statewide Penny	Will parallel modeling and Department of Revenue projections.
Short-term investment rates	Forecasted to be less than 1% in FY14.
State aid - Certified Budget	Based on receipt of full funding of each student at a district cost per student of \$6,069, a 0% increase.
Weighted funding	Funding is based on weighting factors as defined by law for Home School, ELL, SPED, At Risk programming and Regional programming. It does not include Preschool.
Certain State grants	Funding for state grants is same as the current year; however, Gear Up and Smaller Learning Communities funding is ending in FY 2013.
Federal funding	All federal stimulus funding has ended.
Microsoft Settlement funding	Will be spent on various technology initiatives.
Compensation	Includes a conservative estimate of the possible results of collective bargaining. Employer share of IPERS will increase 3%; and health insurance premiums will increase 9%. Compensation – salaries and benefits - in the General Fund represents 82% of overall expenditures. Impact of transitional fees associated with the Affordable Health Care cost.
Utilities costs	Energy conservation efforts will continue to offset increased utility costs; however, cannot allow for unknown weather factors.
Early retirements	Will include more early retirements based on reopening the early retirement window in March of this year.
Balanced budget	Resources will cover expenditures, as required by law.

CALCULATION/ COMPONENT	DESCRIPTION	Budget @ 0% Allowable Growth	Budget @ 2% Allowable Growth	Budget @ 3% Allowable Growth	Budget @ 4% Allowable Growth
District Cost Per Student	Amount set by the state sets the cost per student at prior year + allowable growth	\$ 6,069	\$ 6,189	\$ 6,249	\$ 6,309
X Enrollment	District enrollment on October 1, 2012; 516 students more	32,062.1	32,062.1	32,062.1	32,062.1
= FY 2013 District Combined Cost	Equal to cost per student X enrollment	\$ 194,584,885	\$ 198,432,337	\$ 200,356,063	\$ 202,279,789
- FY 2012 District Combined Cost	Prior year's cost per student X prior year enrollment	(191,454,495)	(191,454,495)	(191,454,495)	(191,454,495)
= Increase in District Combined Cost	Assumes full funding of the proposed allowable growth and increased enrollment	3,130,390	6,977,842	8,901,568	10,825,294
+ Funds for Special Programs	Some state educational programs require state funding be matched with state foundation aid – ex. SPED; ELL; Gifted and Talented.	(47,101)	(209,481)	(290,671)	(371,861)
= Increase (Decrease) in funding	Also commonly referred to as “New Money” or (Reduction in New Money)	3,083,289	6,768,361	8,610,897	10,453,433
+ Built in Revenue changes	Increased tax revenue due to increased valuations; and adjustments to the cash reserve levy, adjusted for tax relief built into state foundation aid formula	3,677,328	3,337,528	3,167,303	2,997,028
- Built in Expenditure changes	Compensation increases, inflation for utilities, supplies, equipment, etc.	(12,586,769)	(12,586,769)	(12,586,769)	(12,586,769)
+ Other ongoing saving from previous years	Cumulative on going savings from previous Reductions in budget needed to maintain a balanced budget as required by law	9,269,865	9,269,865	9,269,865	9,269,865
= Revenues in excess of Expenditures	Budget Gap – amount revenues exceed expenditures	3,443,713	6,788,985	8,461,296	10,133,557
- Additional Expenditures	Anticipated District recommended expenditures	(3,443,713)	(6,788,985)	(8,461,296)	(10,133,557)
= A Balanced Budget	Expenditures = Revenues	\$0	\$0	\$0	\$0

# RECOMMENDATIONS

The district plan for FY 2014 is tied to the CBAC, EBAC, as well as the Board Budget Parameters and Recommendations

- Maintain all programs and services
- Hire 95 FTE to be allocated by staffing formula district-wide
- Spend \$2,000,000 per year, over the next four years, on one-time expenditures
  - Primarily technology related improvements
  - Projects that improve efficiencies and effectiveness
- Transfer \$5,000,000 from unrestricted funds to committed funds
  - For Common Core upgrades such as textbooks
- Invest \$1.5 million to develop a Wellness Program
  - Expect a \$3.24 return on each dollar spent
- Set the Solvency Ratio at 15% Target Rate
- Continue to seek operational efficiencies and savings district wide



# OTHER FUNDS

No significant changes projected for:

- Management Fund
- Physical Plant & Equipment Levy
- Public Education & Recreation Levy
- Capitol Project Fund

# PROPOSED INVESTMENTS IN FY 2014

## Expenditure

\$12.6 m	Current expenses, increase cost (estimate)
\$ 6.8 m	95 additional FTE's
\$ 1.5 m	Wellness Center
\$ 2.0 m	Technology improvements
<u>\$ 5.0 m</u>	Common Core Initiatives

## Revenue

\$ 6.7 m	New money (no strings)
\$ 9.3 m	On-going savings
<u>\$10.3 m</u>	Solvency Ratio

# STATE WIDE PENNY

- District sold \$70M in March 2010 of which \$65.77M is still outstanding
  - District borrowed at a true interest cost of 4.19%.
- District sold \$71.9M in May 2012 of which \$71.9M is still outstanding
  - District borrowed at a true interest cost of 3.42%
- District has identified \$70M of capital project needs for Phase 3
- Cash flow suggests that the proposed bonds should be sold by February 2014 when the 2012 bond proceeds are fully spent
  - Current market estimate is approximately 3.09% for Bank Qualified Bonds and 3.29% for Non Bank Qualified Bonds

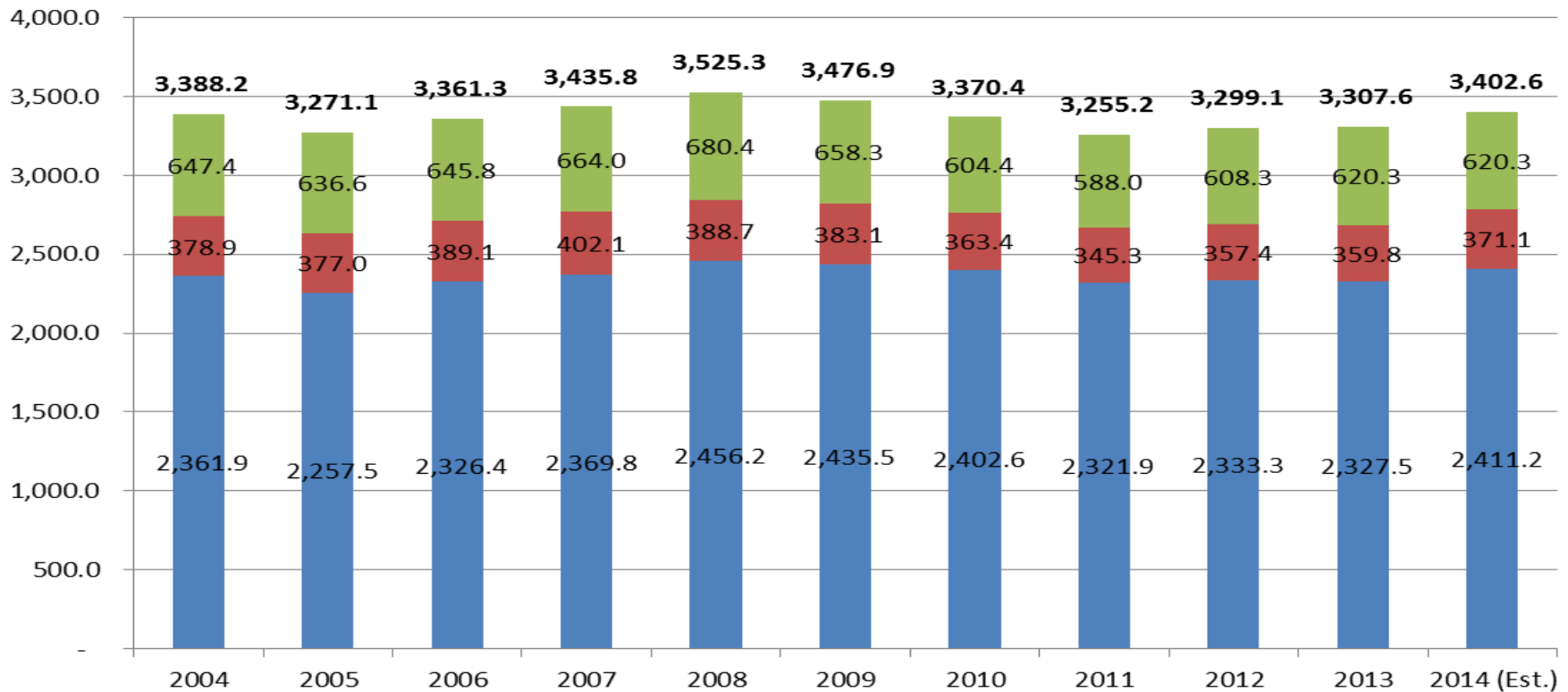
	<u>Current</u>	<u>Projected</u>
FY 2013 Sales Tax Revenues	\$ 27,148,442	\$ 27,148,442
Maximum Annual Debt Service	\$ 12,158,244	\$ 17,894,761
Debt Service Coverage	2.23x	1.52x

- Minimum debt coverage in the bond resolution is 1.25x. The municipal bond market requires a minimum debt coverage of greater than 1.35x

# Classroom Staffing FY 2014 Projection

## Teachers and Support Staff in the Classroom

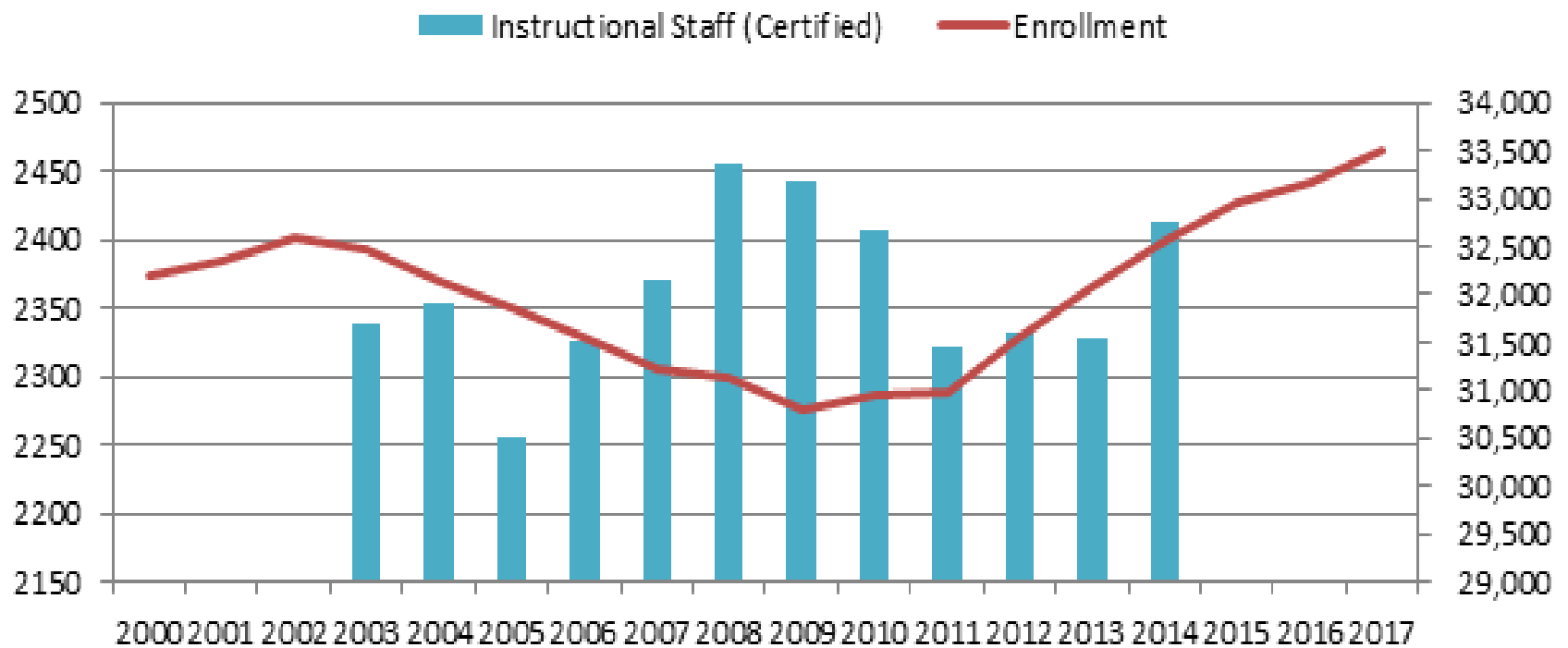
■ Instructional Staff (Certified)  
 ■ Support Staff (Certified)  
 ■ Other Classroom Associates and Paraprofessionals



# FY 2014 Additional Staffing

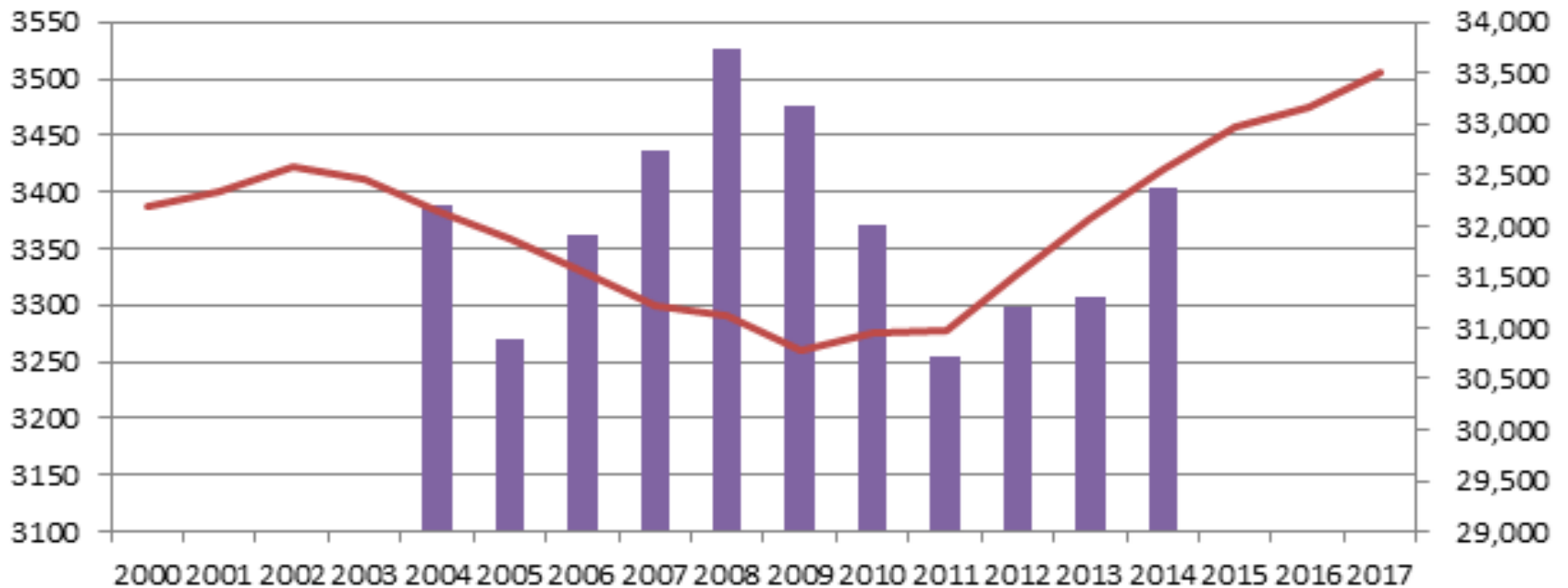
FTE Placement	
High Schools	9.0
Middle Schools	30.0
Elementary Schools	32.6
Special Education	3.5
Will be placed as Enrollment needs are verified	19.9

## Enrollment v. Instructional Staff (i.e. teachers)

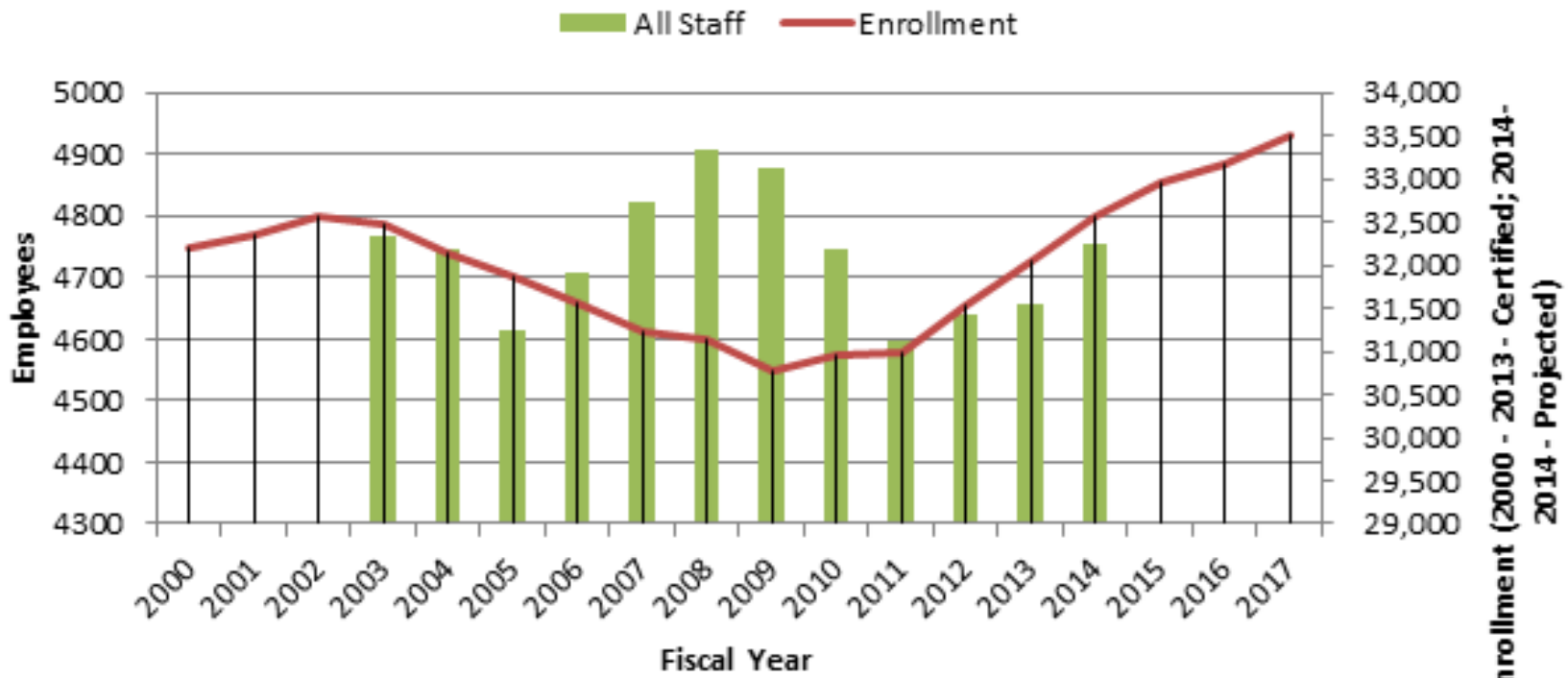


## Enrollment v. Classroom Staff

All Classroom Staff Enrollment



# Enrollment v. Staffing





# Discussion-TAX RATE

- Predictability
- Stay Steady and Stable
- Compelling reason for change

**PROPERTY TAX RATES**

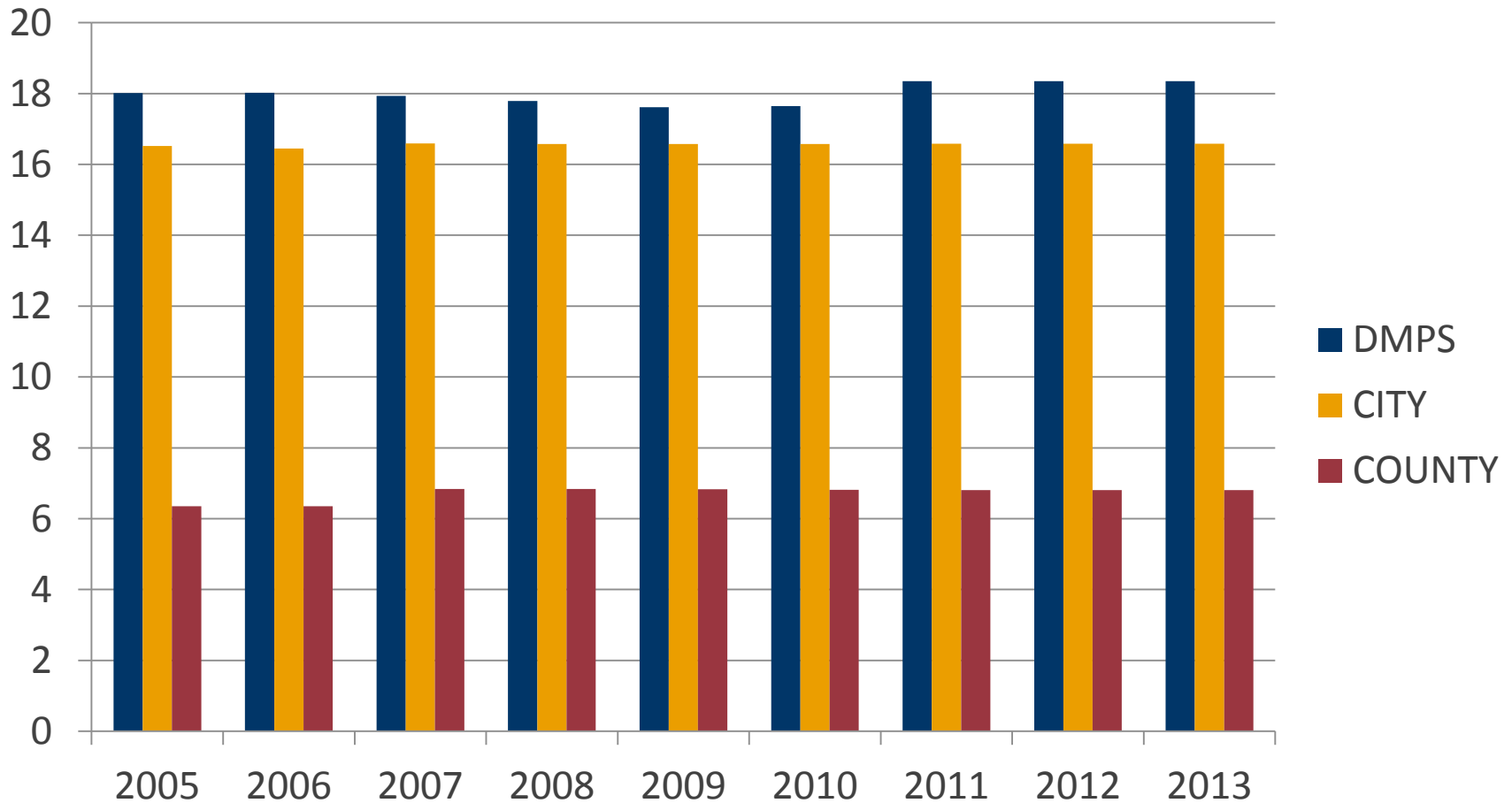
	FY 2011		FY 2012		FY2013		FY2014		FY2014	
	<u>Per Final Aid and Levy</u>		<u>Per Final Aid and Levy</u>		<u>Per Final Aid and Levy</u>		<u>Preliminary Aid and Levy</u>		<u>Lower to FY11 Rate (4,622,750)</u>	
Regular Valuation (with Utilities)	\$ 6,383,416,237	5.24%	\$ 6,557,168,586	2.72%	\$6,405,707,33	-2.31%	\$6,557,601,62	2.37%	\$6,557,601,62	
TIF Valuation	656,551,890	-11.86%	637,913,680	-2.84%	727,881,500	14.10%	762,130,836	4.71%	762,130,836	
Regular and TIF Valuation	\$ 7,039,968,127	3.40%	\$ 7,195,082,266	2.2%	\$7,133,588,83	-0.9%	\$7,319,732,45	2.6%	\$7,319,732,45	
	Dollars Generated	Tax Rate	Dollars Generated	Tax Rate	Dollars Generated	Tax Rate	Dollars Generated	Tax Rate	Dollars Generated	Tax Rate
General										
Regular Program	61,789,897	9.67975	\$ 66,657,358	10.16557	\$ 63,524,721	9.91689	\$ 63,765,202	9.72386	\$ 63,765,202	9.72386
Instructional Support	12,516,843	1.96084	12,539,684	1.91236	12,400,508	1.93585	12,663,952	1.73011	12,663,952	1.73011
Dropout Prevention	9,210,363	1.44286	9,216,156	1.40551	9,572,725	1.49441	9,729,244	1.48366	9,729,244	1.48366
Cash Reserve	12,193,474	1.91018	14,525,440	2.21520	15,062,743	2.35146	18,105,200	2.76095	13,482,450	2.05600
Total General	95,710,577	14.99363	102,938,638	15.69864	100,560,697	15.69861	104,263,598	15.69858	99,640,848	14.99363
Management PPEL	9,925,191	1.55484	10,195,348	1.55484	9,959,850	1.55484	10,196,021	1.55484	10,196,021	1.55484
Regular	2,323,189	0.33000	2,374,377	0.33000	2,354,084	0.33000	2,415,511	0.33000	2,415,511	0.33000
Voted	4,435,180	0.63000	4,532,902	0.63000	4,494,161	0.63000	4,611,431	0.63000	4,611,431	0.63000
Total PPEL	6,758,369	0.96000	6,907,279	0.96000	6,848,245	0.96000	7,026,942	0.96000	7,026,942	0.96000
PERL	861,761	0.13500	885,218	0.13500	864,770	0.13500	885,276	0.13500	885,276	0.13500
Debt Service	-	-	-	-	-	-	-	-	-	-
Total	\$ 113,255,898	17.64347	\$ 120,926,483	18.34848	\$ 118,233,562	18.34845	\$ 122,371,837	18.34842	\$ 117,749,087	17.64347
	Increase \$	.00070	Increase \$	.70501	Decrease \$	(.00003)	Decrease \$	(.00003)	Decrease \$	(.70495)
(PTER) -- Aid & Levy L. 8.24	7,429,275		5,309,733		7,284,378		8,627,377			

# TAX RATE COMPARISON

<u>UEN</u>		
	<u>2013</u>	<u>2014</u> Estimated
Iowa City	14.07327	13.82791
Cedar Rapids	15.16089	15.84788
Davenport	17.04996	17.04588
Council Bluffs	17.15764	17.15764
Sioux City	17.18950	17.18950
Des Moines	18.34845	18.34842

<u>Metro</u>		
	<u>2013</u>	<u>2014</u> Estimated
WDM	13.30184	13.30184
Johnston	17.35008	17.35446
Urbandale	17.63963	17.64040
DCG	16.56000	17.90044
Des Moines	18.34845	18.34842
Indianola	20.46000	20.15000
Ankeny	20.59177	20.34990

# PROPERTY TAX RATE



# TAX RATE

## Why Hold The Line?

- Taxes paid will increase due to an increase in valuations and rollback percentage
- Minimal impact desired for families in high poverty areas
  - 67% of students are free/reduced
  - 6.2% unemployment rate in Des Moines
- Impact on budget and spending authority in the future
- Some reserves are necessary in case of the unexpected
- Decisions must be specific for each district
- 5 Forecast assumes rate stays the same

# TAX RATE

## Why Lower?

- Minimal impact desired for families in high poverty areas
  - 67% of students are free/reduced
  - 6.2% unemployment rate in Des Moines
- Back-fill for ARRA funds

# District Property Overall Recommended Tax Rate-No Change

	<u>Fiscal Year</u>	
	<u>2013</u>	<u>2014</u>
General		
Regular	\$9.92959	\$9.70559
Instructional Support	1.93585	1.69657
Dropout Prevention	1.48171	1.48366
Cash Reserve Levy	2.35146	2.81277
Management	1.55484	1.55484
PPEL		
Regular	.33000	.33000
Voted	.63000	.63000
PERL	.13500	.13500
Debt Service	<u>.00000</u>	<u>.00000</u>
Total	\$18.34845	\$18.34842
Decrease from Prior Year		\$ (0.00003)

# Assumptions

## Revenues:

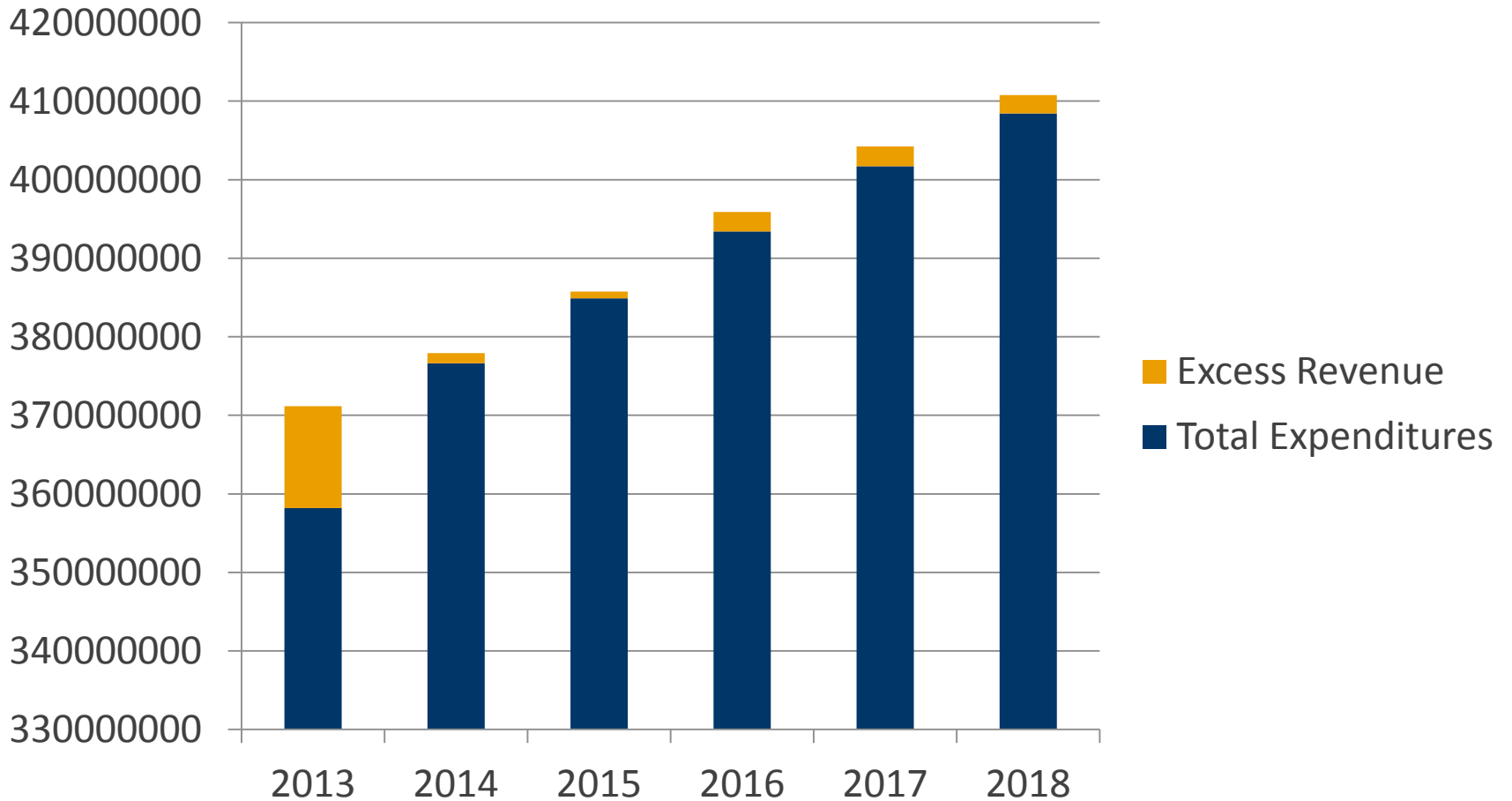
- 2% Allowable Growth
- 300 additional students per year
- Tax Rates stay the same
- Taxable Valuations remain stable (2.5% per year)
- Federal Funding remains the same

## Expenditures:

- Non- personnel cost (CPI) remain steady
- Compensation in line with statewide average (3.75%-4.0%)
- Increase in staff to remain steady



# 5 YEAR FORECAST

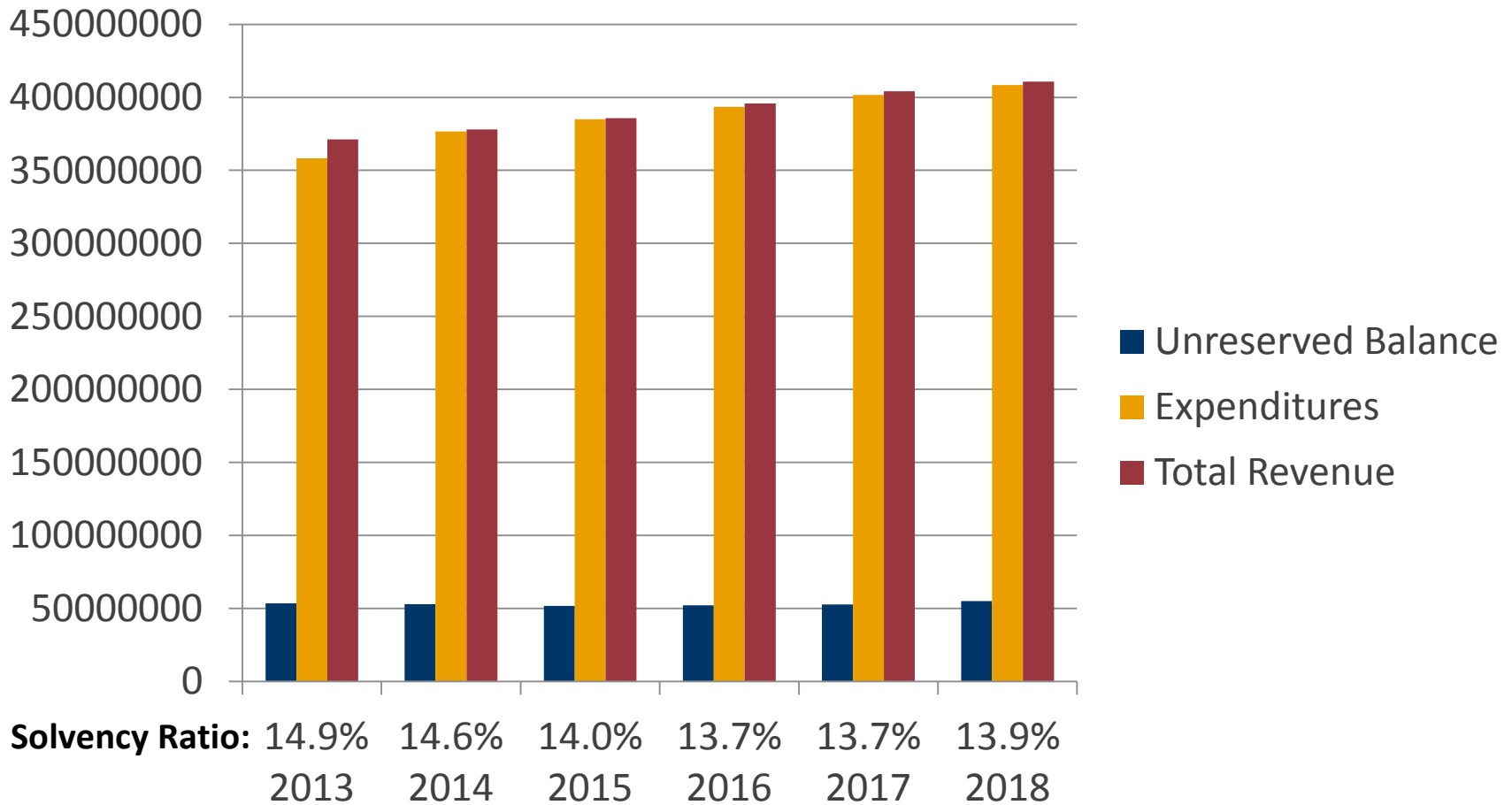


**FISCAL YEARS 2013 - 2018 PROJECTIONS  
ASSUMES 2% ALLOWABLE GROWTH**

GENERAL FUND:	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018
<b>Revenues</b>						
Property Taxes	100,560,686	104,238,014	107,886,000	112,741,000	114,996,000	117,296,000
State Foundation Aid	199,905,288	208,541,457	213,816,000	219,205,000	224,712,000	230,357,000
AEA Flow Through	12,235,407	13,797,176	13,935,000	14,074,000	14,215,000	14,357,000
Other State Sources	2,415,509	2,676,824	1,877,000	1,894,000	1,911,000	1,929,000
Federal Sources	38,028,000	29,783,251	29,226,000	28,794,000	29,065,000	29,340,000
Other Local Sources	18,034,624	16,871,000	17,005,000	17,170,000	17,337,000	17,505,000
<b>Board Designated Fund Balance Use of Funds</b>		2,000,000	2,000,000	2,000,000	2,000,000	-
<b>Total Revenues</b>	<b>371,179,514</b>	<b>377,907,722</b>	<b>385,745,000</b>	<b>395,878,000</b>	<b>404,236,000</b>	<b>410,784,000</b>
<b>Expenditures</b>						
<b>Instruction</b>	239,999,593	252,774,824	258,734,500	264,918,805	270,799,089	277,089,532
Student Support Services	21,104,000	21,526,000	21,957,000	22,396,000	22,844,000	23,301,000
Instructional Staff Support	12,529,000	12,780,000	13,036,000	13,297,000	13,563,000	13,834,000
General Administration	4,325,000	4,412,000	4,500,000	4,590,000	4,682,000	4,776,000
School Administration	18,130,000	18,493,000	18,863,000	19,240,000	19,625,000	20,018,000
Business & Central Administration	8,247,000	8,412,000	8,580,000	8,752,000	8,927,000	9,106,000
Plant Operation & Maintenance	31,925,000	32,564,000	33,215,000	33,879,000	34,557,000	35,248,000
Student Transportation	9,142,000	9,325,000	9,512,000	9,702,000	9,896,000	10,094,000
<b>Total Support Services</b>	<b>105,402,000</b>	<b>107,512,000</b>	<b>109,663,000</b>	<b>111,856,000</b>	<b>114,094,000</b>	<b>116,377,000</b>
<b>Non-Instructional Expenditures</b>	560,000	560,000	560,000	580,000	600,000	600,000
AEA Support	12,235,407	13,797,176	13,935,000	14,074,000	14,215,000	14,357,000
<b>Board Designated Fund Balance Expenditures</b>		2,000,000	2,000,000	2,000,000	2,000,000	0
Total Expenditures to allocate by Function	358,197,000	374,644,000	382,892,500	391,428,805	399,708,089	408,423,532
<b>Total Expenditures</b>	<b>358,197,000</b>	<b>376,644,000</b>	<b>384,892,500</b>	<b>393,428,805</b>	<b>401,708,089</b>	<b>408,423,532</b>
<b>Excess Revenues over Expenditures</b>	<b>12,982,514</b>	<b>1,263,722</b>	<b>852,500</b>	<b>2,449,195</b>	<b>2,527,911</b>	<b>2,360,468</b>
<b>Ending Unreserved Fund Balance</b>	<b>53,490,092</b>	<b>52,753,814</b>	<b>51,606,314</b>	<b>52,055,509</b>	<b>52,583,420</b>	<b>54,943,888</b>
<b>Solvency Ratio</b>	<b>14.9%</b>	<b>14.6%</b>	<b>14.0%</b>	<b>13.7%</b>	<b>13.6%</b>	<b>13.9%</b>

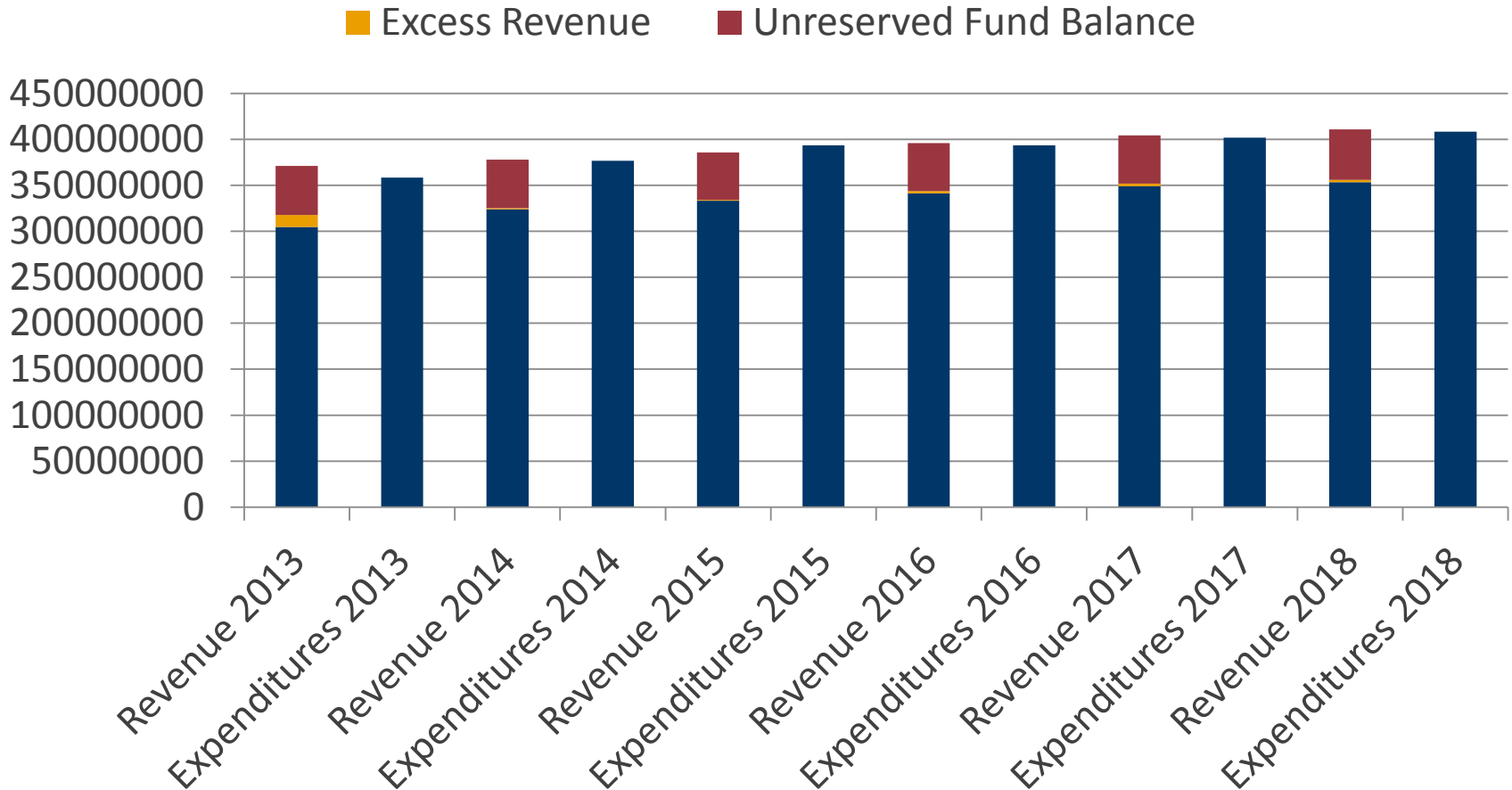
Estimate General Fund Only - assume all Excess is Unrestricted  
Includes \$5 million to Board Designated at end of FY13

# 2% Allowable Growth



# TOTAL REVENUE / TOTAL EXPENDITURES

## Assumes 2% Allowable Growth



# DISTRICT BUDGET

## FY 2014 Final Budget Presentation (Budget Book)

- New version
- Additional Information
- More in depth picture of the District
- More comprehensive
- Nothing removed, just reorganized
- Searchable PDF
- Projected release of the **NEWLY DESIGNED BUDGET BOOK: April 30, 2013**

# DES MOINES PUBLIC SCHOOLS FY 2014 BUDGET DEVELOPMENT PROCESS

## BOARD BUDGET WORK SESSIONS

Tuesday, February 5, 2013

Monday, February 11, 2013

## PRELIMINARY BUDGET RELEASED

Wednesday, March 6, 2013

## PUBLICATION

March 26, 2013

## PUBLIC FORUMS

Tuesday, March 12, 2013  
*School Board meeting @ 6:00p.m.*

East High School; Auditorium  
*Thursday, March 14, 2013 @6:30p.m.*

Roosevelt High School; Library  
*Saturday, March 16, 2013 @9:00a.m.*

AFFIDAVIT OF PUBLICATION

COPY OF ADVERTISEMENT Exhibit "A"

STATE OF IOWA SS COUNTY OF POLK

The undersigned, being first duly sworn on oath, states that The Des Moines Register and Tribune Company, a corporation duly organized and existing under the laws of the State of Iowa, with its principal place of business in Des Moines, Iowa, the publisher of

THE DES MOINES REGISTER

newspapers of general circulation printed and published in the City of Des Moines, Polk County, Iowa, and that an advertisement, a printed copy of which is attached as Exhibit "A" and made a part of this affidavit, was printed and published in The Des Moines Register on the following dates

March 26, 2013

Mason Walsh  
Legals Clerk

Subscribed and sworn to before me by said affiant this 26 day of March 2013

Susan Hartzell  
Notary Public in and for Polk County, Iowa

**SUSAN HAZELTON**  
Notarial Seal - Iowa  
Commission # 223923  
My Commission Expires 3-2-14

Department of Management - Form S-PB-0				
NOTICE OF PUBLIC HEARING PROPOSED DES MOINES SCHOOL BUDGET SUMMARY FISCAL YEAR 2013-2014				
Location of Public Hearing:		Date of Hearing:	Time of Hearing:	
2nd Floor-Central Campus 1800 Grand Avenue, Des Moines		04/09/13	6:00 PM	
The Board of Directors will conduct a public hearing on the proposed 2013/14 school budget at the above-noted location and time. At the hearing, any resident or taxpayer may present objections to, or arguments in favor of, any part of the proposed budget. This notice represents a summary of the supporting detail of revenues and expenditures on file with the district secretary. A copy of the details will be furnished upon request.				
	Budget 2014	Re-estimated 2013	Actual 2012	Avg % 12-14
Taxes Levied on Property	1 118,106,392	113,949,200	116,058,502	0.9%
Utility Replacement Excise Tax	2 4,230,881	4,156,206	4,201,854	-0.6%
Income Surtaxes	3 0	0	0	
Tuition/Transportation Received	4 5,926,000	5,931,000	7,115,906	
Earnings on Investments	5 211,677	223,174	268,181	
Nutrition Program Sales	6 2,969,621	2,840,815	2,819,926	
Student Activities and Sales	7 2,759,900	2,789,300	2,115,682	
Other Revenues from Local Sources	8 40,189,418	43,668,642	47,027,627	
Revenue from Intermediary Sources	9 500,000	504,293	7,250	
State Foundation Aid	10 216,668,143	213,079,484	200,435,357	
Instructional Support State Aid	11 1,408,016	0	0	
Other State Sources	12 590,789	1,607,914	2,515,860	
ARRA Fiscal Stabilization (in formula)	13 0	0	0	
Title I Grants	14 11,216,685	12,456,121	16,992,540	
Other Federal Sources	15 32,274,469	38,703,080	44,657,595	
Total Revenues	16 439,061,161	439,907,209	443,306,679	
General Long-Term Debt Proceeds	17 70,000,000	0	76,223,759	
Transfers In	18 11,681,824	11,618,665	6,987,724	
Proceeds of Fixed Asset Dispositions	19 40,000	134,750	6,809	
Total Revenues & Other Sources	20 520,682,985	451,660,624	525,824,971	
Beginning Fund Balance	21 172,732,035	192,610,823	108,009,653	
Total Resources	22 693,415,020	644,271,447	634,434,624	
*Instruction	23 261,264,900	247,440,711	244,471,310	3.4%
Student Support Services	24 21,928,000	21,499,553	20,186,067	
Instructional Staff Support Services	25 12,780,000	12,529,000	11,626,258	
General Administration	26 5,325,000	5,223,757	4,752,713	
Building Administration	27 19,042,000	18,070,907	18,848,677	
Business Administration	28 10,362,000	10,508,578	10,120,832	
Plant Operation and Maintenance	29 34,616,000	33,346,814	32,727,554	
Student Transportation	30 11,567,000	11,351,738	11,016,298	
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*Total Support Services (lines 24-31)	31A 115,510,000	113,630,347	109,276,377	2.8%
*Noninstructional Programs	32 21,799,698	22,156,305	18,836,858	7.6%
Facilities Acquisition and Construction	33 47,715,710	52,840,312	45,181,485	
Debt Service	34 11,581,824	11,618,665	6,246,338	
AEA Support - Direct to AEA	35 13,797,176	12,236,407	11,699,766	
*Total Other Expenditures (lines 33-36)	36A 73,094,710	76,694,384	63,127,591	7.6%
Total Expenditures	36 471,669,308	459,920,747	435,711,136	
Other Financing Uses: Transfers Out	37 11,581,824	11,618,665	6,112,666	
Total Expenditures & Other Uses	38 483,251,132	471,539,412	441,823,802	
Ending Fund Balance	39 210,163,888	172,732,035	192,610,822	
Total Requirements	40 693,415,020	644,271,447	634,434,624	
Proposed Property Tax Rate (per \$1,000 taxable valuation)	16.34842			

# DES MOINES PUBLIC SCHOOLS FY 2014 BUDGET DEVELOPMENT PROCESS

PUBLIC HEARING –  
BOARD ADOPTION & CERTIFICATION OF FY 2014 BUDGET  
*Tuesday, April 9, 2013*

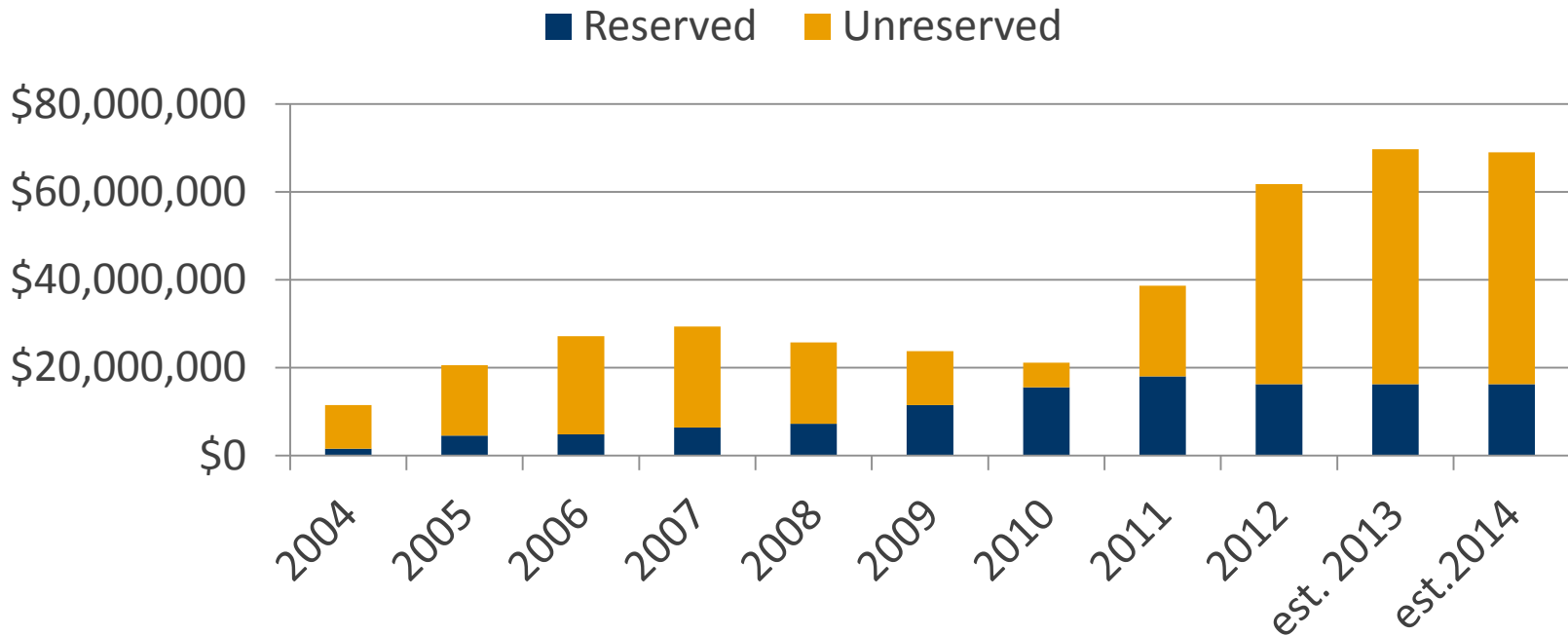
*\*if not adopted on April 9: A Special Board meeting will be scheduled*

CERTIFICATION TO COUNTY  
*Tuesday, April 16, 2013 (statutory deadline)*

Projected Release of New and Improved Budget Book  
*April 30, 2013*

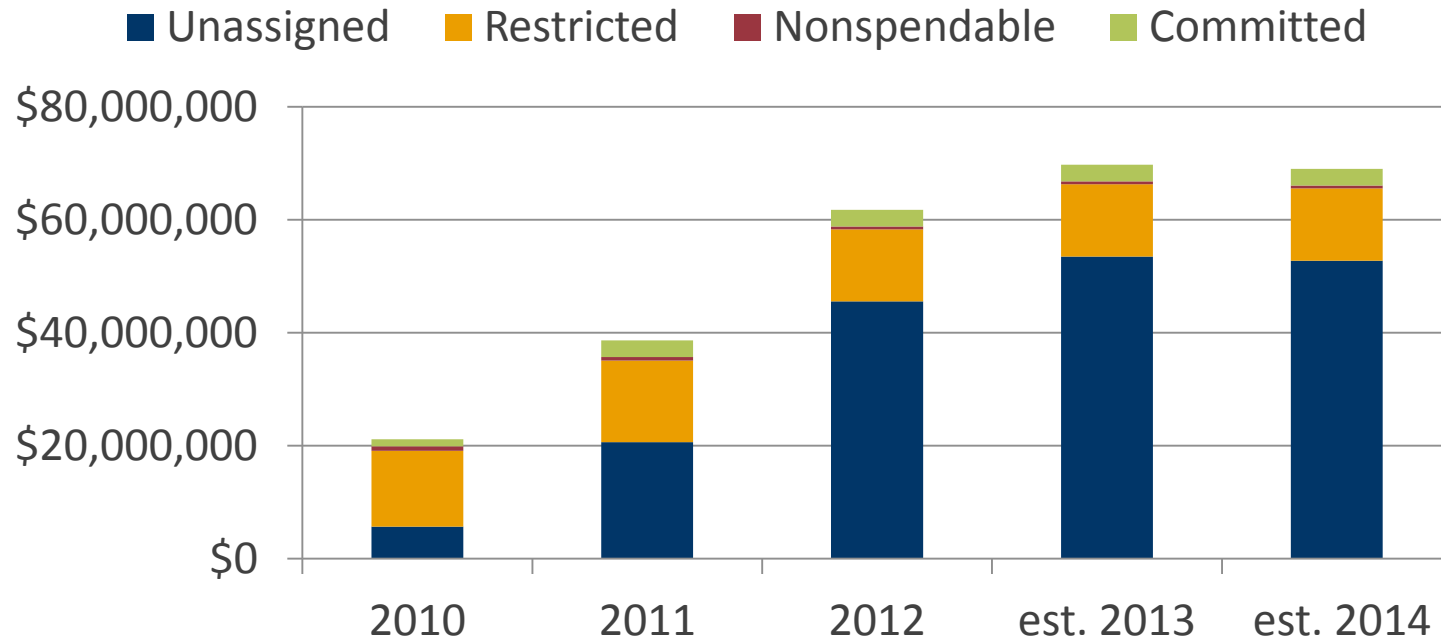


# GENERAL FUND BALANCE



**In 2010: Governmental Accounting Standards Board (GASB) changed the Fund Type Definitions to improve the usefulness of information on Fund Balance.**

# GENERAL FUND BALANCE



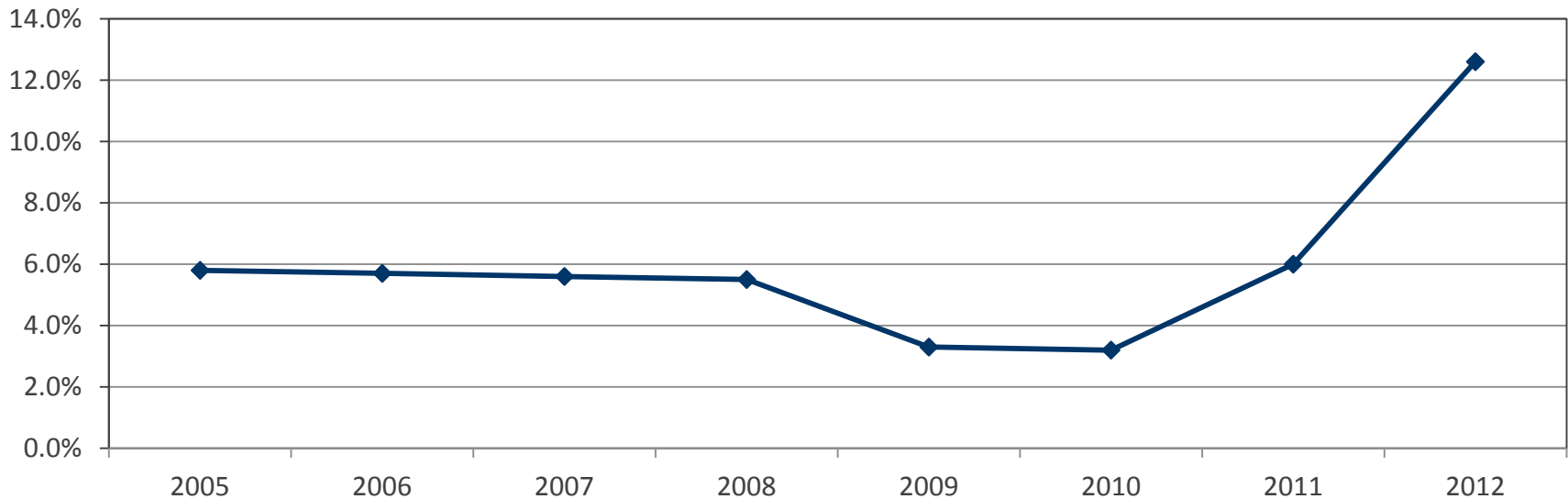
**The UNASSIGNED funds are directly related to the Solvency Ratio**

# SOLVENCY RATIO

- In Iowa, one strong indicator of a school district's financial health is its solvency ratio
- What is a solvency ratio?
  - A snapshot point-in-time measure of the percentage of revenue remaining after gathering all of the year's revenue and paying all of the year's obligations (usually calculated at the end of the fiscal year on June 30<sup>th</sup>)
- The state's target financial solvency ratio range is 5.0% to 15.0%, not to exceed 25.0%
- Des Moines Public Schools is currently in a very good financial situation
  - In order to maintain this excellent level of financial health, it would be best if the District looks to increase its solvency ratio from 12.6% at the end of FY 2012 to 15.0%

# District's Historical Solvency Ratio

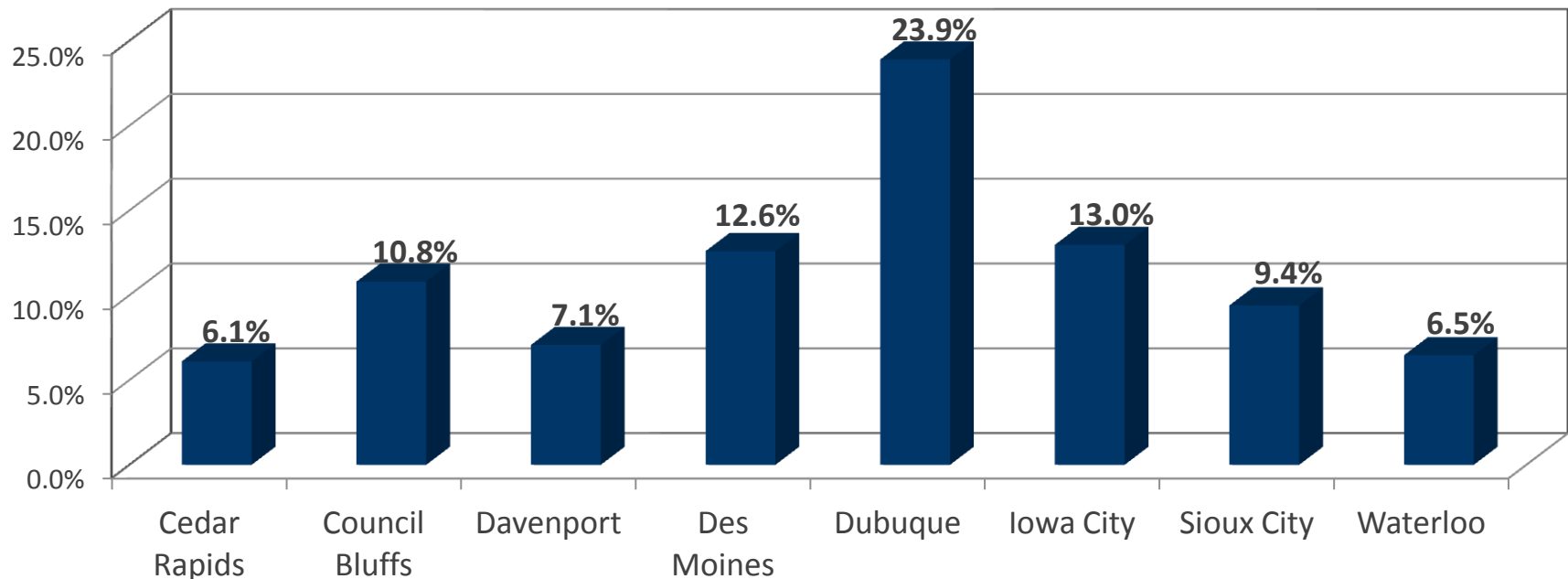
- In the two fiscal years prior to FY 2011, the District's solvency ratio (cash) remained less than 3.5%
- The District had a 3.3% solvency ratio in FY 2009 and a 3.2% solvency ratio in FY 2010
- Both ratios were barely above the Board of Directors' guideline range of 3.0% – 8.0%



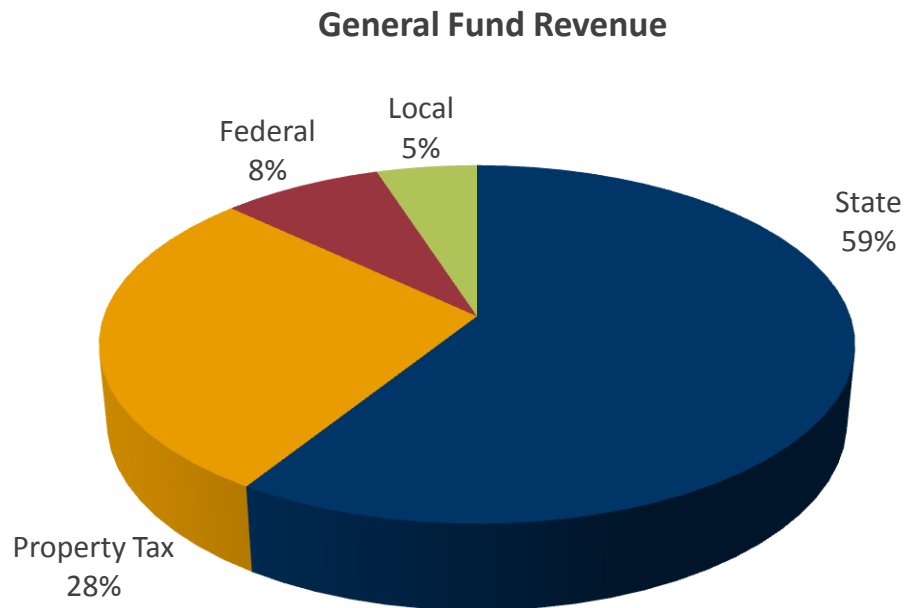
# Iowa Urban Education Network (UEN) Schools

- Though the District's solvency ratio has significantly increased over the last two fiscal years, other UEN school districts have historically had higher solvency ratios than Des Moines Public Schools

Iowa UEN Estimated Solvency Ratios (FY 2012)



# Factors That May Affect the District's Solvency Ratio

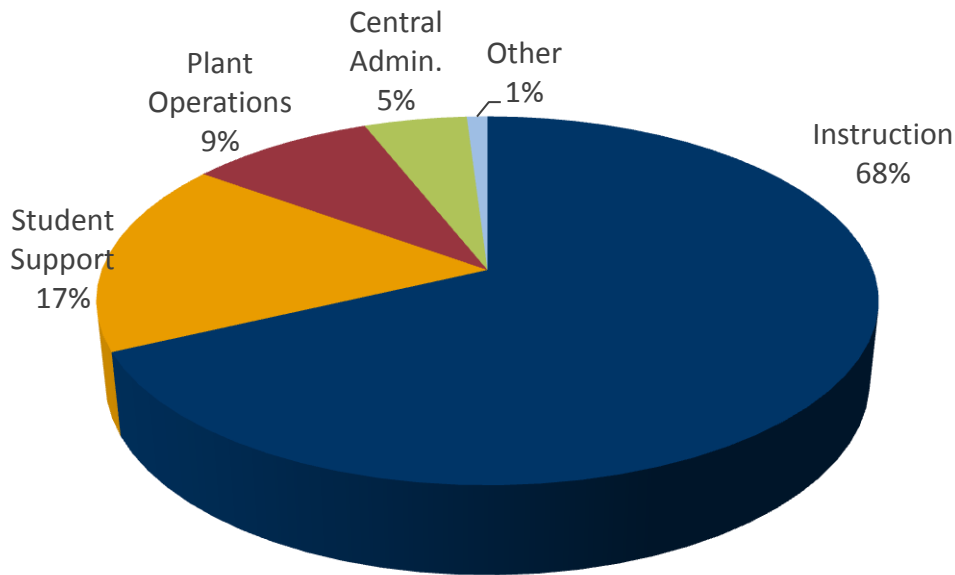


## General Fund Revenue Issues

- Current sequestration could potentially decrease federal funding
- Polk County assessor has already forecasted property tax valuations to decline in the near term
- Possibility for a freeze in school aid by Iowa state lawmakers
- No increase in allowable growth

# Factors That May Affect the District's Solvency Ratio

General Fund Expenditures



## General Fund Expenditure Issues

- Continued increase in health insurance plan expenses and other additional related healthcare costs
- Rise in contribution to IPERS
- Compensation negotiations could lead to teacher settlements that are higher than allowable growth
- Growth in enrolled students who are eligible for free and reduced lunch

# Future Unknown Landscape

- It is essential that the District maintain an above-average solvency ratio to mitigate future risks as adequate fund balance levels are a crucial consideration in long-term financial planning and are used by credit rating agencies to evaluate creditworthiness
- Certain risk factors could lower the District's currently strong solvency ratio and put it in jeopardy:
  - *Federal funding* (expected to be less next year due to sequestration)
  - *Allowable growth* (amount of state foundation aid)
  - *Tax rates* (possibility for a drop in tax relief provided by state appropriation)
  - *Negotiations* (teacher union's new contract is expected to include a package increase that could negatively affect the District's budget)
  - *Other state or federal legislative action* (i.e., education reforms, unfunded mandates, etc.)
- As a result, the District should target a 15.0% solvency ratio to preserve the notable financial circumstances that it is presently experiencing



# The Future Isn't Clear. Our Priorities Are.

Questions?

# The Future Isn't Clear. Our Priorities Are.

Board Work Session  
FY 2014 Budget Development  
April 2, 2013

Thomas Harper, CFO



Think. Learn. **Grow.**

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