

Financial Workshop Agenda

Putnam County School District

01/13/09

Introduction

- Statement of workshop purpose
- Statement of workshop goals
- Introduction of presenters
- Review of agenda

Definitions

- Review of definitions used later in the workshop

Frequently Asked Questions

- Review of questions frequently asked by individuals new to public school financing

Putnam's Current Circumstances

- How we came to have a \$13 million shortfall and no reserve funds
- What we will do about it
 - Educate people on our situation so as to engage them in its resolution
 - Study our costs by cost center by object to understand current inequities and differences in operating efficiencies
 - Show electricity by school
 - Show water by school
 - Build a spreadsheet "score card" to track and vet all opportunities for savings
 - Build some sophisticated budget planning tools that allow encumbering of payroll funds by cost center
 - Begin vetting and deploying all identified opportunities to save money
- Some examples of how this analysis will be used:
 - Transportation
 - Energy

Questions & Answers

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Introduction

- Statement of workshop purpose
- Statement of workshop goals
 - We want to “turn on the lights”.
 - The financial workings of the district can seem obtuse and murky. They can also be rationale and transparent. We’ll be working hard to make them rationale and transparent.
 - If people understand the system and our challenges, they will be better equipped to offer valuable insight.
 - WE DON’T WANT TO PUT YOU TO SLEEP!! Make this INTERACTIVE!
 - We want you to understand what this administration is doing to meet our challenges.
- Introduction of presenters
 - Tom Townsend- Superintendent
 - Rhonda Odom- Chief Financial Officer
 - Sam Foerster- Transition Team Member
- Review of agenda

Definitions:

- **General fund**
 - The account through which the vast majority of the district's revenues and expenses are processed. This is the fund through which salaries and benefits are paid.
 - General funds may be used on capital items, but capital funds MAY NOT be used to pay salaries, benefits or other ongoing operating costs.
- **"Capital" money**
 - Money that may be spent on tangible objects related to our facilities- like buildings, renovations, computers, air conditioners, etc. Capital money MAY NOT be spent on payroll, consulting, software, utilities or other operating expenses.
 - Three main sources of "capital money", in order of magnitude are "2 mil money", PECO dollars, and impact fees.
 - **2 mil money**
 - those dollars collected by the county property appraiser through real and tangible personal property taxes at a historical level of 2 mils, or .2% (\$2 per thousand), of assessed value.
 - 2 mil money is recurring (that is, collected and remitted to PCSD each year) and is fairly stable
 - Recently, mil rate for this category was reduced by the state from 2 mils to 1.75, so that the other quarter point could go to local required effort (general fund revenues)
 - **PECO dollars**
 - Stands for Public Education Capital Outlay
 - Is capital money remitted to the district by the state on an annual basis. Is subject to the same volatility as other state funding sources (FEFP, most notably) when state funding is short.
 - **Impact fees**
 - Those dollars collected by the county property appraiser in the form of fees assessed to people interested in building new homes in Putnam County.
 - The idea is that new homes will translate into new kids, which will translate into a need for more classrooms.
 - You will recall PCSD inappropriately spent approximately \$780k in impact fees in 2006/2007 and 2007/2008 on general fund expenditures
- **Discretionary funds**

- Those monies budgeted to specific cost centers to be spent at the discretion of the senior on-site administrator.
- Discretionary funds may be capital money or general funds.
- **Categorical funds**
 - Those sources of revenue which must be spent on certain prescribed expense types. Capital funds are a type of categorical revenue. Other common categoricals include instructional materials, transportation and teacher lead program.
 - Categorical revenue streams have “strings attached”, while general fund revenue streams do not.
- **Title I**
 - Refers to the piece of federal legislation which initially provided for supplemental federal funding of schools serving high percentages of students from low income households, as determined by the percentage of students on free and reduced lunch.
 - Title I funds may be used to provide SUPPLEMENTAL educational services to schools designated as Title I schools, including additional teachers, aides, tutors, etc.
 - Title I funds MAY NOT be used to SUPPLANT, or replace, teaching resources which provide basic levels of service.
- **“required local effort”**
 - The process by which a local school board collects real and tangible personal property taxes through the local taxing authority (in our case, the Putnam County Tax Collector)
- **Cost strip**
 - A sequence of five numerical designations which serve to identify useful information regarding the nature of an expenditure
 - Is in the form **999-9999-999-9999-999** where
 - **999** is the **FUND** designation, identifying the **type of revenue** being spent
 - 100 is the general fund
 - 3XX fund numbers represent capital accounts of various types
 - 420 is the account used for federal dollars, particularly in federal programs
 - 7XX fund numbers represent NEFEC funds, which have no bearing on our district (we simply act as their fiscal agent)
 - **9999** is the **FUNCTION** designation, identifying the **type of service** on which the funds are being spent. A partial listing of the more popular function codes follows:
 - 5101- Basic K-3 instruction

- 5102- Basic 4-8 instruction
- 5103- Basic 9-12 instruction
- 5250- Exceptional education
- 5300- Vocational education
- 6140- Psychological services
- 7200- General administration
- 7300- School administration
- 999 is the OBJECT designation, identifying what the funds are being spent for. A partial listing of our object codes follows:
 - 112- Principals
 - 113- Teachers
 - 130- Operation of Plant Personnel
 - 210- Retirement
 - 371- Telephone (non-cell phone)
- 430- Electricity 9999 is the COST CENTER designation, identifying the school or department in which the funds are being spent. A partial listing of our cost center codes follows:
 - 0006- Department of Fiscal Services
 - 0014- Department of Purchasing and Distribution Services
 - 0031- Department of Maintenance
 - 0112- Interlachen High School
 - 0171- Jenkins Middle School
- 999 is the PROJECT designation, identifying a particular project, if any, to which the expense should be associated. The most common project is 101- District School Fund.
- **FTE (full time equivalent)**
 - That unit of measure used by FEFP to fund local school districts. FEFP funding is defined in terms of dollars/FTE. The more students enrolled in our system, the more we get paid.
 - One FTE is ROUGHLY equivalent to one student enrolled in our school system.
 - FTE rates vary according to student grade and exceptionality.
 - Grades K-3 1.066 FTE/student
 - Grades 4-8 1.000 FTE/student

- Grades 9-12 1.052 FTE/student
- ESE 1.00 – 4.97 FTE/student depending on exceptionality

- **FEFP (Florida Education Funding Program)**

- That program through which the state of Florida remits a portion of state sales tax revenue to local school districts
- The level of FEFP funding for a given district is defined in terms of dollars per FTE
- FEFP funding is used to supplement those funds raised by the district in “local required effort” to ensure that all districts in Florida receive approximately equal amounts of general fund dollars per FTE.

- **“Roll out, roll up”**

- Name given by this administration to the tactic employed in prior years to obscure the projected amount of available revenue at fiscal year end (carry forward balance) by first over-budgeting all available dollars to hundreds or thousands of individual cost strips (the “roll out”), then “rolling up” the surpluses in each cost strip at year end to generate the carry forward balance.

- **“Find the money”**

- Typically refers to the process of identifying available revenue which has been “parked” in surplus accounts (reserved fund balance, “insurance fund”) or in cost strips which were over-budgeted (that is, to which funds were allocated in excess of the actual need), either intentionally or unintentionally.
- May also refer to the process of identifying lower priority activities whose budgeted dollars may be reallocated to an activity deemed to be of higher priority.
- Only rarely refers to finding a new source of revenue, such as a grant.

- **Recurring vs non-recurring revenue**

- Recurring revenue is that income to the district which may reasonably be expected to be available to the district on an indefinite ongoing basis.
 - Examples of recurring revenue include dollars from FEFP and from local required effort
- Non-recurring revenue is that income to the district which MAY NOT reasonably be expected to be available to the district on an indefinite ongoing basis.
 - Examples of non-recurring revenue include withdrawals from surplus accounts, grants, and insurance premium refunds.

- **Carry forward balance**

- That balance in the general fund which is “carried forward” from the end of one fiscal year to the beginning of a new fiscal year after all revenues (both recurring and non-recurring) are collected and all expenses are paid in the fiscal year being closed.

- A carry forward balance is NOT the same thing as a budget surplus, though the two are related. Budget surpluses add to the carry forward balance, while budget deficits subtract from the carry forward balance.
- Substantial carry forward balances often take many years to accrue.
- The carry forward balance is the unreserved fund balance as of the end of the fiscal year, which in our case is June 30.
- **Unreserved fund balance**
 - The difference given by subtracting all actual and projected expenses from all actual and projected revenues (both recurring and non-recurring)
 - The unreserved fund balance is a snapshot of the district's financial position at any given time
- **Surplus (Deficit or Shortfall)**
 - The difference given by subtracting all actual and projected expenses from all actual and projected RECURRING revenues.
 - Budgets which generate a surplus will contribute to the carry forward balance. Budgets which operate in deficit or shortfall will subtract from the carry forward balance.

Frequently Asked Questions

- **What does “broke” mean in the context of the school district?**
 - It DOESN'T mean that we have no money. We will continue to take in and spend tens of millions of dollars. The wheels will keep turning, people will continue to get paychecks, and we will continue to provide our children with the best possible relationships, opportunities and expectations.
 - It DOES mean we have very few uncommitted dollars in surplus and that our projected expenses are much greater than our projected recurring revenues. If this situation were allowed to continue unchecked, we would be insolvent very early in fiscal year 2009/2010.

- **How can we afford ANYTHING if we're “broke”?**
 - Again, “broke” doesn't mean we have no money. We will continue to take in and spend tens of millions of dollars.
 - We can reassess priorities and reallocate funds already committed to lower priority cost strips.
 - Also, large budgets are dynamic things. For example, we see attrition losses fairly routinely, related to people taking unpaid leaves, retiring, etc. That attrition frees some cash which may be spent on newly determined priorities, preferably new priorities that have a projected return on investment.

- **How can a budget be “balanced” when we're spending more money than we're taking in?**
 - A budget is balanced when all expenses equal all revenues. Those revenues may be recurring OR non-recurring.
 - In the last two years, our budgets have relied heavily on our carry forward balance and insurance reserve fund, both sources of non-recurring revenue, to help meet expenses. Technically speaking, our budgets have been balanced, even though our on-going expenses exceeded our RECURRING revenue.

- **What are grants, and can we use them to help with our general fund crisis?**
 - Grants are sources of project specific categorical revenue. They are generally awarded by the state or federal government to fund specific programs which are proposed in detail in the grant application. Because they are categorical by definition (with exception, perhaps, of a small administrative percentage), grants ARE NOT helpful in addressing our general fund crisis.
 - Grants are helpful, however, in providing services that would otherwise not be available to the students and families of our district. As such, they will be pursued aggressively by this administration.

- **Historically, why has it been difficult to get a straight answer to the question “Do we have the money to pay for this?”**
 - First, the budgeting process has historically been very closed. No one other than the CFO, and perhaps the superintendent, understood the budgeting process. Few people understood how the “roll out, roll up” strategy could be manipulated to “find money” for things that were deemed priorities and “cry poor” in response to requests deemed unworthy.
 - Second, our financial system, TERMS, is antiquated and is incapable of encumbering payroll. That is, it can not project district payroll expenses forward through the fiscal year. The problem this presents is that we can’t easily compare how much we’ve spent at any given time to what we SHOULD have spent up to that point. We can see how much we’ve spent, and we can see how much was budgeted for the whole year, but we don’t know if we’re ahead of, or behind, the expected curve at any given time. If that sounds scary, it is, and it can be fixed. It is a priority of this administration to do so first using some workaround technology, then by replacing our financial information system.
- **What are, and are not, sources of general fund revenue?**
 - Local required effort, FEFP dollars, 2 mil transfers allowed for maintenance expenditures, and transportation dollars are included in general fund revenue figures
 - “2 mil dollars”, PECO funds, food service funds, Title I and other grant sources ARE NOT included in general fund revenues.
- **Why is spending a carry-forward balance a bad idea?**
 - More generally speaking, the practice to be avoided is that of spending non-recurring revenue on recurring expenses.
 - This is bad practice because the recurring expenses (employee salaries, for example) will eventually consume all available non-recurring revenue (carry forward balance, insurance reserve fund), leaving the district ill-prepared to handle unanticipated fiscal challenges (like declining FEFP reimbursement rates, declining FTE counts or escalating energy costs) in a graceful, non-disruptive manner.
 - In layman’s terms, you shouldn’t spend your savings account to support a lifestyle that is beyond your means. Rather, you should live within your means and use the savings account to pay for those expenses that arise unexpectedly.
- **Why is spending general fund dollars on capital items a bad idea?**
 - Because capital money is currently in more abundant supply, and it can’t be used to pay operating expenses.
 - Every general fund dollar spent on capital goods is a dollar we no longer have available to salaries and other operational expenses.

- **How are Florida public schools funded?**
 - Two primary sources of revenue- state sales tax paid through FEFP and property taxes assessed, collected and remitted locally by the county property appraiser in a process known as “required local effort”.
 - Local required effort- local property taxes are collected on all real and tangible personal property in the district at a rate of approximately 7.85 mills (total), or .785%, or \$7.85 dollars per thousand dollars of assessed value. Of this revenue, 2 mills (historically) has been categorized as capital money, while the remaining mills go to the general fund.
 - Non-categorical, general fund district revenue comes from the State of Florida through the FEFP (Florida Education Funding Program) based on the number of FTE’s (full time equivalents) currently enrolled in our schools. The amount paid per FTE in a given district depends on how much money the district raised per FTE through required local effort. The state of Florida will supplement each district’s general funds so that all districts enjoy a roughly equal number of general fund dollars per FTE. As recently as 2007/2008, this funding level was approximately \$7,200/FTE

- **Is Putnam County really a “poor” district?**
 - In terms of the demographic we serve, absolutely. The metric quoted most often by the state DOE is the percentage of students on Free or Reduced Lunch, and where that metric is concerned, we’re one of the top ranked districts in the state year after year.
 - In terms of operating funds per student, in an absolute sense, no. There’s no such thing as a “poor” district in Florida, since the state FEFP program works with required local effort to ensure a fairly equitable split of operating funds across the state.
 - In terms of capital funds, yes. Because the property tax base in Putnam County is relatively small when measured per FTE, we rely heavily on FEFP for our operating fund dollars and we collect comparatively fewer “2 mil dollars” per child than would a wealthier county.
 - For example, let’s assume that an adjacent county educates roughly the same number of children as PCSD but has a property tax base that is twice the size of Putnam’s.
 - Though the FEFP program will level the operating funds across the two districts, the required local effort in our wealthier neighboring district will have brought in twice as many capital dollars per student as Putnam County- enabling them to purchase twice as many building renovations, computers and classroom technology enhancements.

Putnam’s Current Circumstances

- **How we came to have a \$13 million shortfall and no reserve funds**

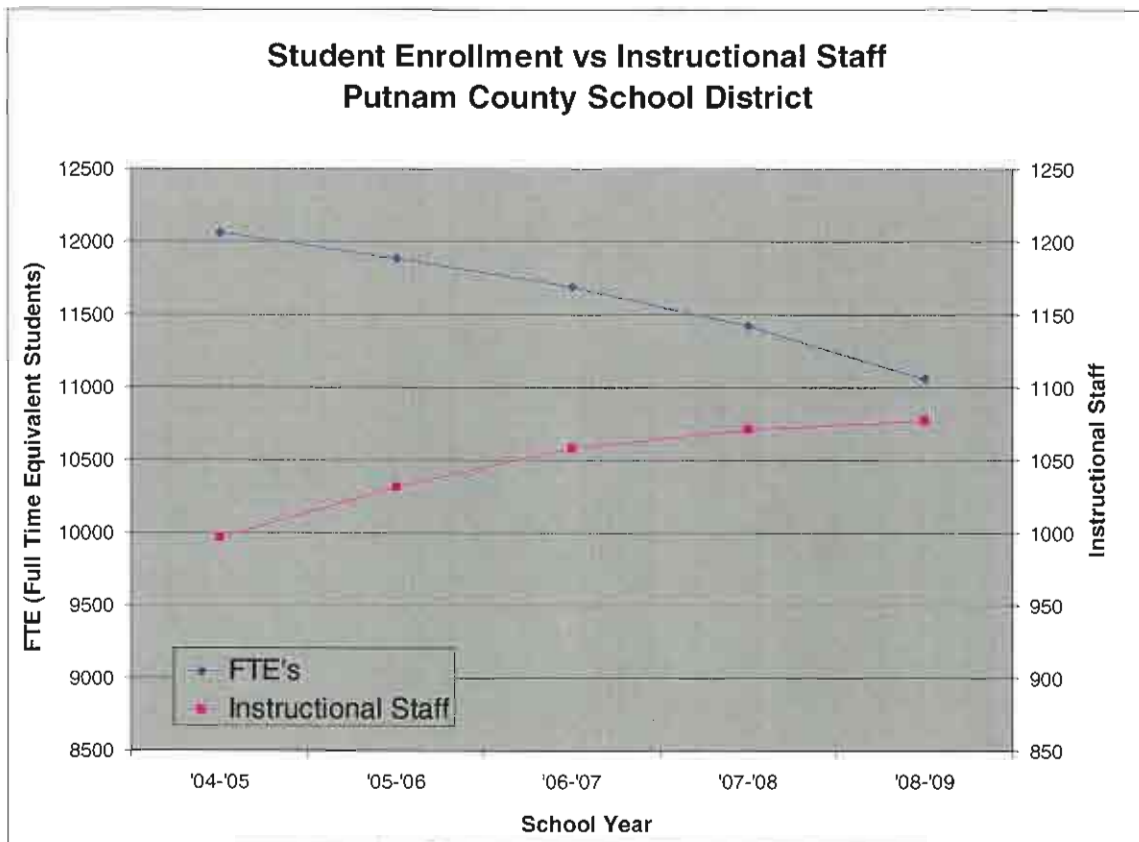
Historically, approximately 80% of district revenues have been spent on payroll. This spending level allowed the district to easily meet its non-payroll obligations and to maintain an appropriate carry forward balance year to year.

In 2007/2008, payroll expenses were allowed to reach 86% of district revenues without corresponding reductions in non-payroll obligations. As a consequence, the district burned through approximately \$4 million in 2007/2008 (\$3.3 million in reduced carry forward balance and \$.7 million in inappropriately spent impact fee revenue).

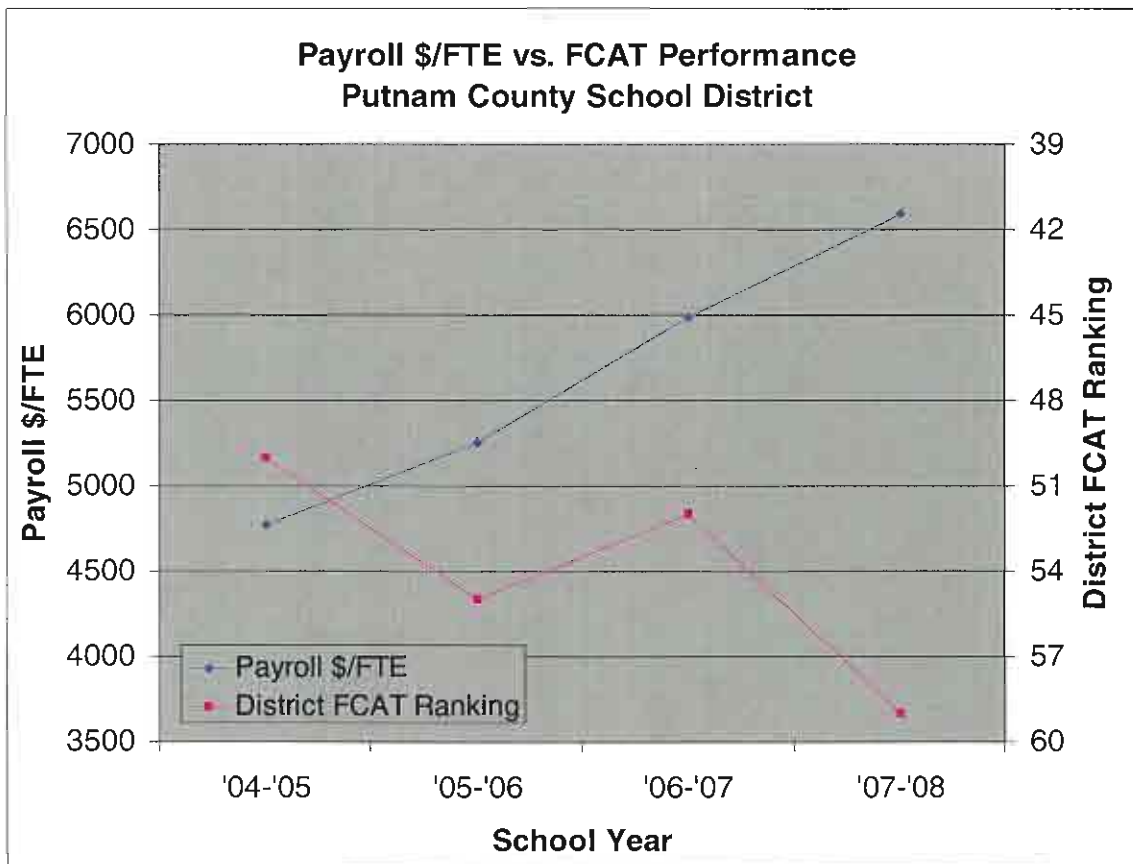
School year	Revenue	Salaries/benefits	Payroll %	Budget Surplus (Deficit)
2004/2005	\$72,924,721	\$57,620,559	79.0%	\$1,039,032
2005/2006	\$77,253,450	\$62,407,747	80.8%	\$171,311
2006/2007	\$87,375,181	\$69,994,508	80.1%	\$1,049,318
2007/2008	\$87,512,670	\$75,297,805	86.0%	(\$4,000,000)
2008/2009	\$82,974,219	\$70,890,952	85.4%	(\$5,300,000)

Despite a hiring freeze, the payroll expense ratio for 2008/2009 remains at 85.4%, and the district continues to burn through cash at a rate of \$5+ million/yr (\$4.0 million in reduced carry forward balance, \$1.3 million borrowed from insurance fund).

This increase in payroll expense ratio is explained in part by the inverse relation between our student population and our staffing level. While our student population has decreased by approximately 8% in the last four years, our staffing levels have increased by 8%.



This increasing instructional staff ratio, along with annual rate increases, step increases, longevity bonuses, and increased benefits contributions have resulted in a net increase in payroll dollars per FTE of 34% over four years. Though such an investment might have been expected to result in dramatically improved student achievement, our district FCAT ranking fell 9 spots in the same time period.



SUMMARY

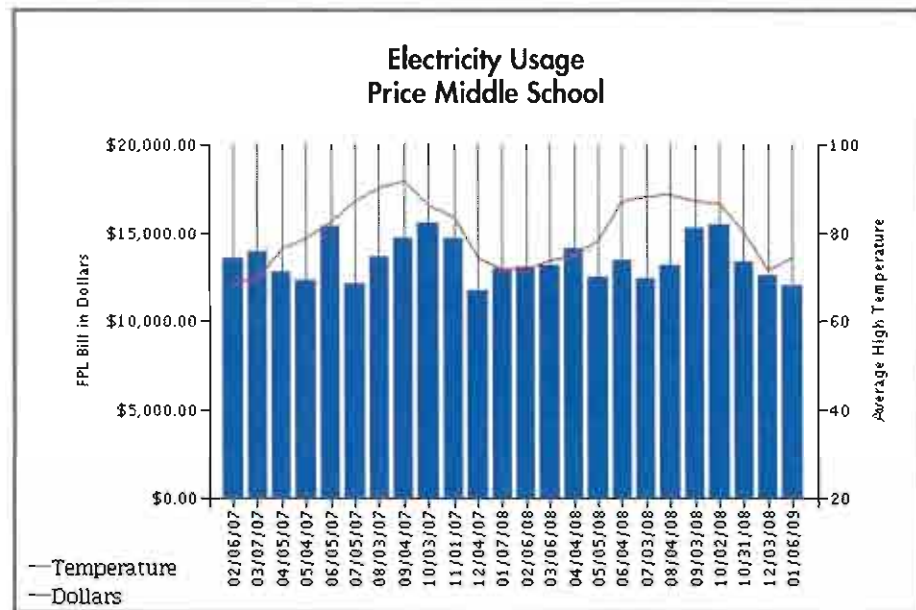
For the last two fiscal years, the district has relied heavily on non-recurring revenue sources to meet on-going expense obligations. In two years, we have wiped out a \$7 million dollar carry-forward-balance, borrowed \$2+ million from the insurance fund, and allocated more capital outlay dollars for general fund expenditure than ever before.

Our current cash burn rate (that amount by which our expenditures exceed revenue) is \$5+ million/yr at a current state revenue level of approximately \$52.7 million. Our revenue next year is projected to be \$7.7 million less than this year, based on guidance from the State of Florida that 2009/2010 FEFP rates will revert to 2004/2005 levels (approximately \$4,178/UFTE) and on the assumption that our student population will decline by another 300 students next year to approximately 10,760.

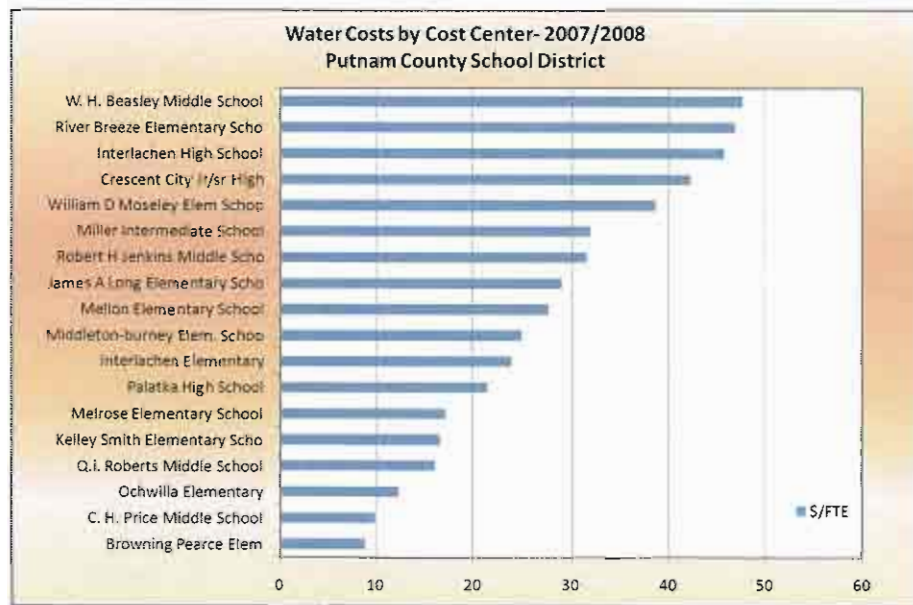
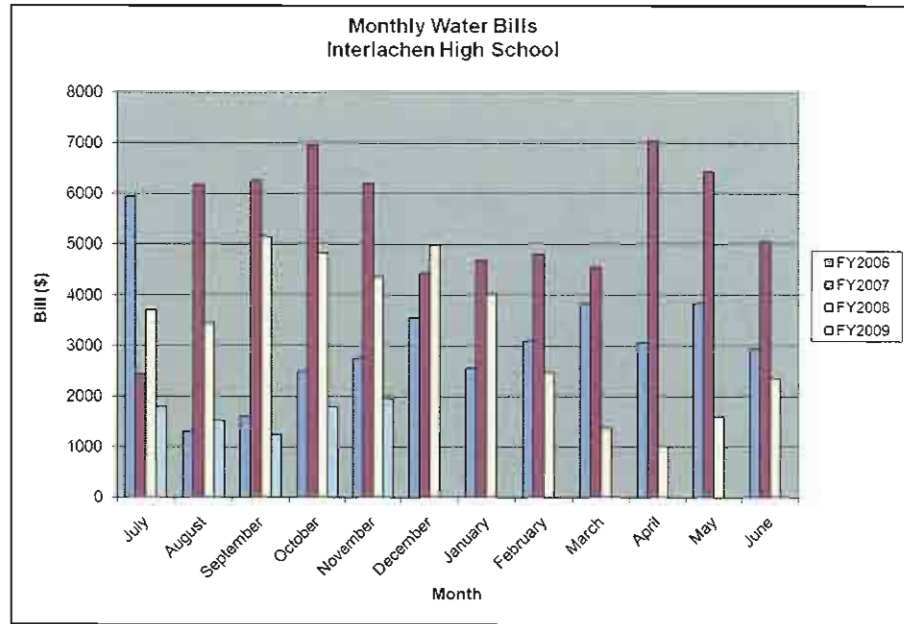
The bottom line- given our current posture in terms of staffing levels, salaries and student population, we will be insolvent by August 2009. Balancing the 2009/2010 budget will require that we cut \$12.7 million, or approximately 14% from the 2008/2009 budget.

- **What we will do about it**

- Educate people on our situation so as to engage them in its resolution
 - This workshop is a first step in that process
- Study our costs by cost center by object to understand current inequities and differences in operating efficiencies
 - Show electricity by school



- Show water by school



- Build a spreadsheet “score card” to track and vet all opportunities for savings
- Build some sophisticated budget planning tools that allow encumbering of payroll funds by cost center
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