

Fairbanks North Star Borough School District
Work Session with Borough Assembly

Budget Considerations



FAIRBANKS NORTH STAR BOROUGH SCHOOL DISTRICT
520 Fifth Avenue Fairbanks, Alaska 99701-4756 (907) 452-2000

Fund Balance Practices

District Interests

Fund Balance Practices -

- Establish a target fund balance percentage at an adequate level to protect instructional programs against temporary revenue shortfalls or unpredicted one-time expenditures.
- Review impact of lapse ordinance on District fund balance

Governmental Finance Officers Association GFOA

RECOMMENDED BUDGET PRACTICES

4.1 Develop Policy on Stabilization Funds

- *Practice:* A government should **develop policies** to guide the creation, maintenance, and use of resources for financial stabilization purposes.
- *Rationale:* Governments should maintain a prudent level of financial resources to **protect against** reducing service levels or **raising taxes** and fees because of **temporary revenue shortfalls** or **unpredicted one-time expenditures**.
- *Outputs:* The policies should establish how and when a government builds up stabilization funds and should identify the purposes for which they may be used. Development of a policy on minimum and **maximum reserve levels** may be advisable. Policies on stabilization funds should be publicly available and summarized in materials used in budget preparation. They also should be identified in other government documents, including planning and management reports.
- *Notes:* Stabilization funds are called by many names including rainy day funds, unreserved, **undesignated fund balances**, and contingency funds. These funds may be used at a government's discretion to address temporary cash flow shortages, emergencies, unanticipated economic downturns, and one-time opportunities. They provide flexibility to respond to unexpected opportunities that may help a government achieve its goals. Policies on the use of these funds may also be tied to an adverse change in economic indicators (such as declining employment or personal income) to ensure that the funds are not depleted before an emergency arises. The minimum and maximum amounts to be accumulated may be based on the types of revenue, the level of uncertainty associated with revenues, the condition of capital assets, or the government's level of security with its financial position. Stabilization funds may be **constrained by state or local laws**. Legally required reserves should be distinguished from discretionary reserves

Fairbanks North Star Borough

FISCAL POLICIES

IV. Reserve Policies

A. **Adequate reserves shall be maintained** for all known liabilities, including employees' leave liabilities, workers' compensation liabilities, and self-insured retention limits.

B. The Borough will endeavor to maintain a reserve in each operating fund to cover cash flow requirements, normal variance in revenue and expenditure estimates, abnormal variance in state revenue estimates versus state appropriations, potential for unreserved litigation expenses and judgments, and expenditures of an emergency nature.

In addition to the requirements in the preceding paragraph, the general fund must also forward fund certain appropriations in the special revenue and capital projects funds, such as expenditure-driven grants and approved bond projects for which bonds have not yet been issued, and is used to cover supplemental appropriations for needs that arise outside the annual budget process. The Borough will work toward increasing its **target amount of general fund reserves to 17 percent** of either the prior year's expenditure level or the current year appropriation level, whichever is greater (approximately two month's cash flow).

Fairbanks North Star Borough School District

BOARD POLICIES

410 - Fiscal Management Philosophy

The Board recognizes that it is the trustee of significant amounts of **public resources**. As such it must be vigilant in supervising the use of the local, state and federal funds allocated to educational purposes. The quantity and quality of the **district's learning programs will be directly influenced by the funding provided and by the management of those funds.**

Therefore, the superintendent will use appropriate **fiscal planning** and **management methods**, modeled after the **best-accepted business practices** and directed toward the educational goals of the district.

Fairbanks North Star Borough School District FUND BALANCE HISTORY

	AS 14.17.505 Audited FB %
FY05 Fund Balance	8.88%
FY06 Fund Balance	8.34%
FY07 Fund Balance	6.36%
FY08 Fund Balance	6.91%
FY09 Fund Balance	6.04%
FY10 Fund Balance	4.26%
FY11 Fund Balance	1.06%
FY12 Fund Balance	1.06%
FY13 Fund Balance	1.81%
FY14 Fund Balance	2.07%
FY15 Fund Balance	1.60%

← Lapse Ordinance

District Interests

Fund Balance Practices -

- Establish a target fund balance percentage at an adequate level to protect instructional programs against temporary revenue shortfalls or unpredicted one-time expenditures.
- Review impact of lapse ordinance on District fund balance

Lapse Ordinance

District Interests

Lapse Ordinance-

Collaborate with borough to review code 3.01.060.

Consider:

- Repeal Code 3.01.060
- Best leverage of local resources
- Facility maintenance
- Simplification of lapse calculation
- Establishing a lapse level that provides for district fund balance goals
- Address unintended consequences
 - “Use it or Lose it”
 - Disparity adjustment to State (FY12 \$92,025, FY13 \$117,915, FY14 \$89,814)
 - District Fund Balance decrease

Fairbanks North Star Borough

BOROUGH CODE - Chapter 3 FISCAL MANAGEMENT

3.01.060 LAPSING of FUNDS

E. Notwithstanding other provisions of this section, the school district may carry over from one year to the next unassigned local appropriation fund balances, not exceeding seven percent of the local contribution to education for that fiscal year. The first 28.5 percent of the total annual lapse shall, to the extent permitted by law, lapse to the borough's school district facilities reserve fund for the purpose of major maintenance, repairs and upgrades of borough school district facilities. "Annual lapse" is defined as the net change in total general fund fund-balance, on a budgetary basis; after including, as revenue, the carryover amount assigned in the prior year to be used for expenditures in the current year and the amount of the lapse to the reserve fund shall be capped, if necessary, so that the **annual lapse to the reserve fund does not exceed \$800,000**. The superintendent of schools shall account separately for the local funds on a pro rata basis, by applying, to the June 30th unassigned fund balance, the percentage of the local appropriation to the total actual revenues in the school district's general operating fund for the same fiscal year ending June 30th. To the extent permitted by law, the calculated local portion in excess of the seven percent shall lapse to the **borough's school district facilities maintenance reserve fund**, except for any of this portion formally designated by the school board to be used for expenditures in the immediately subsequent fiscal year. The carryover amount formally designated by the school board to be used for expenditures in the immediately subsequent fiscal year shall be shown as local revenues from the borough in that following year's budget. **Any lapse to the borough shall be accounted for separately by the school district and shall not be netted with the local amount appropriated by the assembly.** (Ord. 2012-12 § 2, 2012; Ord. 2012-01 § 3, 2012; Ord. 2009-49 § 2, 2009; Ord. 2009-37 § 2, 2009; Ord. 2005-72 § 2, 2005; Ord. 2001-07 § 2, 2001; Ord. 85-001 § 2, 1985)

Fairbanks North Star Borough

School District

LAPSING HISTORY

	<u>Lapse to Borough</u>	<u>Cumulative Lapse</u>
FY05 Fund Balance	N/A	
FY06 Fund Balance	N/A	
FY07 Fund Balance	N/A	
FY08 Fund Balance	N/A	
FY09 Fund Balance	N/A	
FY10 Fund Balance	\$ 2,182,799	\$ 2,182,799
FY11 Fund Balance	\$ 1,223,198	\$ 3,405,997
FY12 Fund Balance	\$ 772,605	\$ 4,178,602
FY13 Fund Balance	\$ 800,000	\$ 4,978,602
FY14 Fund Balance	\$ 800,000	\$ 5,778,602
FY15 Fund Balance	Waived	\$ 5,778,602

Fairbanks North Star Borough

BOROUGH CODE - Chapter 3 FISCAL MANAGEMENT

Appropriations from Account		
02/24/11	(\$574,000.00)	Ryan Middle School Structural Repairs
06/23/11	(1,271,000.00)	Pearl Creek, Weller & Warehouse/Fac Maint Building
01/31/12	(1,563,000.00)	SD Admin Center Mechanical/HVAC Improv & Energy UG
03/31/13	(235,000.00)	Weller ES Septic System Replacement
06/30/13	(180,000.00)	Badger ES Classroom Addition Design
04/10/14	(1,650,000.00)	Badger ES Classroom Additions Construction
	(\$5,473,000.00)	

Fairbanks North Star Borough

BOROUGH CODE - Chapter 3 FISCAL MANAGEMENT

3.01.061 Reimbursement to the school district facilities maintenance reserve

To the extent a project is paid for by the school district facilities maintenance reserve, any funds received in a given fiscal year in reimbursement of that project are appropriated on July 1st of the subsequent fiscal year and shall be transferred into the school district facilities maintenance reserve. (Ord. 2014-09 § 2, 2014)

District Interests

Lapse Ordinance-

Collaborate with borough to review code 3.01.060.

Consider:

- Repeal Code 3.01.060
- Best leverage of local resources
- Facility maintenance
- Simplification of lapse calculation
- Establishing a lapse level that provides for district fund balance goals
- Address unintended consequences
 - “Use it or Lose it”
 - Disparity adjustment to State (FY12 \$92,025, FY13 \$117,915, FY14 \$89,814)
 - District Fund Balance decrease

In-Kind & Allocated Services

District Interests

In-Kind Contributions

- Collaborate with borough to establish a consistent understanding of the application of in-kind services.
- Establish most efficient use of local resources to cover facilities and administrative needs.

Alaska Administrative Code

TITLE 4 – EDUCATION & EARLY DEVELOPMENT

4 AAC 09.990 (b) In the definition of "local contribution" in AS 14.17.990,

- (1) "appropriations" means money appropriated to a district's school operating fund by the city or borough;
- (2) "value of in-kind services" means the documented fair market value of insurance, utilities, energy, audits, and maintenance of facilities provided at no charge to a district by the city or borough as reported in the district's school operating fund.

Fairbanks North Star Borough School District

COMPREHENSIVE ANNUAL FINANCIAL REPORT - CAFR

NOTE 13: BOROUGH IN-KIND AND ALLOCATED SERVICES

During the year, certain services are provide by the Borough to the School District. These include use of various Borough facilities, debt service on school facilities, certain administrative functions and major facility maintenance. Other services provided by the Borough during the year are allocated and charged to School District operations.

Other services referred to above include Risk Management premiums, administrative costs and audit fees. These charges to the district range historically as follows:

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	(at 12/15/14) FY15
FNSB Budget IGCP	\$ 1,533,370	\$ 1,550,420	\$ 1,660,790	\$ 1,665,600	\$ 1,808,300	\$ 1,740,440	\$ 1,791,610	\$ 1,940,700
Actual IGCP	\$ 1,499,090	\$ 1,409,941	\$ 1,560,164	\$ 1,438,040	\$ 1,531,787	\$ 1,608,644	\$ 1,740,086	\$ 1,878,442
Actual IGCP as % of Budget	97.76%	90.94%	93.94%	86.34%	84.71%	92.43%	97.12%	96.79%

92.5% of FNBS IGCP Budget Average over 8 years

Joint Work Session FNSB/FNSBSD
10/29/2015

19

Fairbanks North Star Borough

INTRAGOVERNMENTAL COST PLAN - IGCP

FY 2015-2016 Budget Fairbanks North Star Borough	COMPONENT UNIT
	SCHOOL DISTRICT
COST POOLS	
Other Borough Administration	-
Treasury/ Budget	571,340
External Audit/Assembly	60,000
Department of Law	141,250
Risk Management	2,379,090
Design and Construction	128,890
Total Charges from Cost Pools	3,280,570
Less current agreements to adjust cost pool	(1,279,690)
Total IGCP Charges Appropriated	2,000,880
General Fund IGCP Revenue	2,000,880
Total IGCP Revenue	2,000,880

excerpt from pg 361

Joint Work Session FNSB/FNSBSD
10/29/2015

20

District Interests

In-Kind Contributions

- Collaborate with borough to establish a consistent understanding of the application of in-kind services.
- Establish most efficient use of local resources to cover facilities and administrative needs.

Local Funding Calculation

District Interests

Local Funding Calculation

- Collaborate with borough to establish a consistent messaging of local contribution.
- Consider benefit to the community for both entities to be able to communicate a consistent message regarding level of local contribution.
- Borough needs credit for all resources allocated to education.
- District needs the ability to focus on operational funding.

Alaska State Statute

TITLE 14 – EDUCATION, LIBRARIES & MUSEUMS

Sec. 14.17.410. Public School Funding. (b) Public school funding consists of state aid, a required local contribution and eligible federal impact aid

Ketchikan Ruling

The State of Alaska appealing a final ruling in favor of the Ketchikan Gateway Borough's argument that the state's required local contribution for public education violates Alaska's Constitution.

Final ruling expected 2016-2017

FNSB may have more information regarding status of appeal

2015-16 Local Contribution

Alaska State Statute 14.17.410

Minimum Required Local Contribution		
The Lessor of:		
Preceding year basic need	\$ 154,287,991	
x 45%	45%	\$ 69,474,582
	- or -	
Full and true value of taxable property	10,821,487,250	
January 1, 2014 Assessed Valuation x .00265	0.00265	\$ 28,676,941
Minimum Required Local Contribution to Education		
		28,676,941
Maximum Required Local Contribution		
Minimum plus:		
Greater of:		
Full and true value of taxable property	10,821,487,250	
x 2 mill levy	0.002	21,642,975
	- or -	
Current year basic need	182,982,912	
Plus certain state funding outside foundation formula ->		
x 23%	23%	42,086,068
Maximum additional local contribution allowed	35,179,170	35,179,170
Maximum Allowed Local Contribution		
		63,856,111
Estimated Contribution		
Prior year contribution amount before lapse		49,906,000
Impact of current year change in assessed values		847,770
Additional support		4,800,000
Additional support		115,130
	86.7% of cap ->	55,369,000
Amount below maximum as set forth in 14.17.410 =		
		8,487,111

2015-16 Debt Service

Fairbanks North Star Borough
History of School Construction
Debt Service Reimbursement
from Alaska Department of Education
2005 through 2014

Fiscal Year	DEED Debt Service	DEED Reimbursement	Average Reimbursement
2014	\$14,625,533	\$9,503,785	
2013	14,747,471	9,493,563	
2012	15,046,333	9,784,711	
2011	13,630,008	8,826,704	
2010	13,724,301	8,759,372	\$9,273,627 5 year
2009	13,824,630	9,094,087	
2008	16,242,802	11,131,249	
2007	15,145,777	10,412,977	
2006	17,232,115	12,068,791	
2005	16,117,027	11,272,875	\$10,032,811 10 year

Note: A bond sale of \$45,000,000 is proposed for Fall 2015 (\$37,150,000 for the new Ryan Middle School and \$7,850,000 for other projects). There is an additional \$20,340,000 of authorized bonds that will be sold in a future bond sale.

W:\financial services\Accounting\DS\Reimbursements\Reimbursements
PB: D Brody & E Weis
Date: 5/14/15

Joint Work Session FNSB/FNSBSD
10/29/2015

27

District Interests

Local Funding Calculation

- Collaborate with borough to establish a consistent messaging of local contribution.
- Consider benefit to the community for both entities to be able to communicate a consistent message regarding level of local contribution.
- Borough needs credit for all resources allocated to education.
- District needs the ability to focus on operational funding.

Joint Work Session FNSB/FNSBSD
10/29/2015

28

Payment in-lieu of Taxes - Impact Aid

District Interests

PILT / Impact Aid

- Collaborate with borough to establish a consistent understanding of Impact Aid's place in the conversation regarding local contribution.
- Consider benefit to the community for both entities to be able to communicate a consistent message regarding level of PILT / Impact Aid.

Alaska State Statute

TITLE 14 – EDUCATION, LIBRARIES & MUSEUMS

Sec. 14.17.990. Definitions. In this chapter, unless the context requires otherwise,

(5) "eligible federal impact aid" means the amount of federal impact aid received by a district as of March 1 of the fiscal year as a result of an application submitted in the preceding fiscal year, including advance payments and adjustments received since March 1 of the preceding fiscal year from prior year applications, under 20 U.S.C. 7701 - 7714, except payments received under former 20 U.S.C. 7703(f)(2)(B), **to the extent the state may consider that aid as local resources** under federal law;

Impact Aid Deduct

Estimated payments eligible to be offset against FOUNDATION Funding		
2014-15 Eligible Impact Aid Received		14,187,661
Total eligible payments received		14,187,661
Impact Aid percentage		
Required local contributions		28,676,941
divided by		
Budgeted local contributions		
Borough appropriation		55,369,000
Other local revenue (less e-rate)		567,000
Budgeted local revenue		55,936,000
Impact aid % ("required local" divided by "budgeted local")		51.27%
Impact Aid component		
Eligible payments received		14,187,661
x 90%		90.00%
x impact aid % 46.14%		51.27%
Impact Aid Deduct-->		6,546,282

Impact Aid Deduct – cont.

District Adjusted ADM	26,012.40
Base student allocation	\$ 5,880
BASIC NEED	\$ 152,952,912
Less: Required local contribution component	(28,676,941)
Less: Impact Aid component	(6,546,282)
STATE FOUNDATION AID COMPONENT	\$ 117,729,689

Joint Work Session FNSB/FNSBSD
10/29/2015

33

Fairbanks North Star Borough School District Impact Aid Summary 2016 Federal Application Student Information October 24, 2014 Count

	Reg Ed	SPED	TOTALS
CATEGORY A Students			
Uniformed Services			
FTWW-Army	1,186	168	1,354
EAFB- Air Force	474	81	555
Total Category A	1,660	249	1,909
CATEGORY B Students			
Air Force	145	15	160
Army	452	55	507
Sub-Total Uniformed	597	70	667
BLM	68	12	80
Fish & Wildlife	19	1	20
Sub-Total BLM/Fish & Wildlife	87	13	100
AAFES	14	3	17
Civil FTWW	298	54	352
Sub-Total - FTWW	312	57	369
Civil EAFB	82	9	91
Air National Guard	157	24	181
Sub-Total - EAFB	239	33	272
FAA	51	6	57
Total Category B	1,286	179	1,465
Grand Total Category A & B	2,946	428	3,374

34

District Interests

PILT / Impact Aid

- Collaborate with borough to establish a consistent understanding of Impact Aid's place in the conversation regarding local contribution.
- Consider benefit to the community for both entities to be able to communicate a consistent message regarding level of PILT / Impact Aid.