




Fairbanks North Star Borough School District

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Date: July 25, 2016
To: FNSBSD Board of Education, Heidi Haas, Board President
Through: Dr. Karen Gaborik
From: Lisa Pearce, Chief Financial Officer 
Re: 2016-17 Budget Status following Governor Walker's vetoes

As you are aware, on June 29, 2016 Governor Walker vetoed various portions of the legislative appropriations that were transmitted to the Governor for signature on June 20, 2016. Governor Walker's vetoes that affect education funding totaled \$58.7 million. Of this total reduction in funding, \$5,397,113 affects Fairbanks North Star Borough School District:

HB256	\$ 486,139	→	\$ 1,139,170 Operating Fund
Foundation	\$ 653,031	→	
Transportation	\$ 987,240		
Debt Retirement	<u>\$ 3,270,703</u>		
Total	\$ 5,397,113		

The good news for FNSBSD is that we did not budget for the HB256 revenue. The approved budget does not include the \$486,139 attributable to that legislation. This leaves us with an estimated operating fund revenue shortfall of \$653,031.

Preliminary indications of year-end financial position at June 30, 2016 are that we will have a substantial increase in fund balance. In recognition of precariously low reserve balances, the Board of Education approved the 2015-16 operating fund budget to provide an increase of \$1,145,300 in fund balance. In addition to this budgeted effort we had large savings in utility expenses during the 2015-16 year primarily due to a mild winter and low fuel costs. Another factor in reduced expenditures was the number of positions in the budget that went unfilled or were only filled for a part of the budget cycle.

On the revenue side of the equation we received Impact Aid attributable to 2013 and 2014 totaling \$3.2M which was over and above the amount budgeted for FY2016.

District administration has been communicating the need for increased fund balance. We have been able to enhance our position for various reasons. This recent unexpected reduction in revenue can be covered responsibly by our fund balance. Government Finance Officers Association - GFOA recognizes as appropriate the use of fund balance to offset volatility in revenue sources such as cuts in state aid. Our current situation is exactly this.

For this reason I recommend that the Board consider a revision to the 2016-17 Approved Budget – Operating Fund Revenue as follows:

Foundation Funding	(\$ 653,031)
Use of Fund Balance	\$ 653,031

The Transportation Fund revenue reduction of \$ 987,240 will be a challenge for FNSBSD. As you may recall, in the 2016-17 Approved Budget we included an operating fund transfer in the amount of \$1,500,000 to subsidize the transportation fund. Also included in the Transportation Fund budget was \$1,000,000 use of fund balance. Early indications of our June 30, 2016 fund balance for the transportation fund to be \$2,500,000. This is an increase from the prior year of approximately \$500,000.

We budgeted fuel cost at \$3.25/gallon. With fuel prices at current levels we would experience a savings of approximately \$75,000. We also budgeted for a third scheduler position at a cost of \$85,000. We will delay filling the third scheduler position until we evaluate the work load once school starts. I recommend we increase the operating fund subsidy by \$450,000 and increase the use of fund balance in the transportation fund by \$300,000. Considering potential savings in fuel costs and staffing, this would leave us with a budget shortfall of \$ 77,240. We will then work closely with our transportation department and First Student on cost containment initiatives and practices to try to re-coup the \$ 77,240 balance through day to day operations. Please know the ability to reduce day to day expenses in the transportation fund is very limited. We have very few district level expenses beyond our contract with First Student. We are bound to contractual obligations with First Student which don't allow for a reduction in routes beyond a certain point.

These recommendations would require the following revision to the 2016-17 Approved Budget:

Operating Fund Expense -	
Transfer to Other Funds	\$ 450,000
Transportation Fund Revenue -	
Use of Fund Balance	\$ 300,000

The final reduction based on the governor's vetoes does not directly affect the school district, but is rather a reduction of \$3,270,703 payable to the Borough as the state's share of the 70/30 split in bond payments. While this does not negatively impact the district's budgeted funds, this certainly has a direct impact to the borough's budgets. This could also impact future levels of local appropriation from the borough to the school district's operating fund.

I look forward to ongoing discussions with the Board of Education regarding the financial challenges of the current 2016-17 school year. I also encourage far reaching dialogue to consider potential future challenges and how the district might best position itself to move forward into such uncertainties.