

ANCHORAGE SCHOOL DISTRICT
ANCHORAGE, ALASKA

ASD MEMORANDUM #058 (2020-2021)

December 1, 2020

TO: SCHOOL BOARD

FROM: DR. DEENA BISHOP, SUPERINTENDENT

SUBJECT: FISCAL YEAR 2020-21 PRO FORMA FINANCIAL PLANNING
OUTLOOK & BUDGET DEVELOPMENT GUIDANCE

ASD Core Value: The district will be open, transparent and accountable to the public.

RECOMMENDATION:

It is the Administration’s recommendation that the School Board approve and authorize the Superintendent to prepare the Anchorage School District’s FY 2021-22 Preliminary Financial Plan and Budget in accordance with the financial projections and budget guidance set forth in this memorandum.

The budget for FY 2021-22 is established for planning purposes with projected revenues of \$789.580 million as shown in Table 1 below. This represents a decrease of \$92.620 million, or -11.9 percent, from the FY 2020-21 approved budget of \$882.200 million.

Table 1. Individual Fund Budget Summary (in millions \$)

		FY 22 Pro Forma	
		vs FY 21 Adopted	
25.910	23.272	(2.638)	-10.2%
		(70.720)	-54.0%
		(9.244)	-11.0%
		-	0.0%
		0.507	2.2%
		-	0.0%
		(92.620)	-11.9%
		(6.000)	-12.0%
		\$ (98.620)	-12.0%

PERTINENT FACTS:

Introduction

This memorandum outlines the financial planning considerations and budget development guidance that will be used to develop the FY 2021-22 Preliminary Financial Plan.

The financial planning considerations are in the detailed financial outlook developed in the attached Appendix.

Key considerations in the development of a financial plan for the district this coming year include:

1. Revenue assumptions and risk analysis related to enrollment and changes in state, local and federal funding;
2. Address increasing capital requirements amid the uncertainty of state debt reimbursement; and
3. Address challenges of maintaining pupil transportation without State funding.

The School Board and administration are continuing community conversations on the School Board's new strategic plan. The board goals and priorities, developed according to the community's feedback, will guide the development of the FY 2021-2022 budget.

The Board has tasked the administration with developing a balanced budget under current law and associated revenue projections that will focus on student outcomes by implementing steps to achieve Board's long-term strategic plan.

Summary of Pro Forma Financial Outlook

With a stagnant overall enrollment projection, assuming reduced revenues for FY 2021-22, OMB estimates that the financial gap between revenues and expenditures will be roughly \$28.138 million, not including potential costs of unsettled labor contracts, to maintain the same services as presented in the FY 2020-21 budget.

The appendix to this memorandum presents financial planning considerations which will be used in developing the FY 2021-22 Preliminary Financial Plan and Budget as well as a 6-year outlook based on current law and flat funding thereafter. In preparing the budget for the 2021-22 fiscal year, OMB updates revenue projections and reviews the expenditure trend line as well as known and measurable variations from trends, assuming current staffing levels are maintained, in order to assess the potential financial gap between projected revenues and projected expenditures.

Key Considerations to Close the Gap

Personnel costs make up roughly 87 percent of the district's General Fund budget. Salary and benefit increases are trending with inflation projections for FY 2021-22. In order to close the budget gap, the district is faced with extremely difficult choices on where to reduce staffing levels and create efficiencies in non-personnel costs.

SUMMARY:

The administration will continue its evaluation of all programs to ensure continued alignment with the Board's strategic goals and initiatives of the district for FY 2021-22.

The administration will develop a balanced budget that attempts to minimize the erosion in the breadth and depth of course offerings while maintaining momentum toward Board goals to the extent practical. The balanced budget will be submitted for public consideration in January with board deliberations in February.

Attachment

DB/JA/AR

Prepared by: Andy Ratliff, Senior Director, OMB
Approved by: Jim Anderson, Chief Financial Officer

Anchorage School District
Anchorage, Alaska

TO: ANCHORAGE SCHOOL BOARD
From: CFO/OMB
Subject: FY 2021-22 Pro Forma Financial Outlook
Date: December 1, 2020

Introduction

OMB has prepared the Pro Forma Financial Outlook as an appendix to the *Pro Forma Financial Planning Outlook and Budget Development Guidance Memo* slated for Board review at the December 1, 2020 Board meeting and approval at the December 15, 2020 board meeting.

This Pro Forma Financial Outlook memo will:

1. Provide revenue, expenditure, and budget gap projections for FY 2021-22
2. Update extraordinary revenue and expense items
3. Review key budget assumptions, including:
 - a. enrollment projections
 - b. revenue projections under current law
 - c. salary inflation
 - d. benefits changes
 - e. services, supplies, equipment, and other costs
 - f. continuing programs with expiring funding sources
4. Provide an illustrative six-year outlook based on current law and flat funding thereafter

The purpose of the Pro Forma Budget Development Guidance Memo is to outline expected revenues and changes in cost estimates to provide the same level of service as this current year, taking into account the following: projected fluctuations in enrollment and demographics, price variation on fixed costs, and changes in labor contracts. Additionally, the Pro Forma communicates the anticipated budget gap between revenues and expenditures that serves as the starting point for developing the Preliminary Financial Plan.

The information contained in this financial outlook is primarily focused on general operating revenues and expenditures. Projections and analyses for other funds are provided to the extent that material or noteworthy changes are expected within either the amount or scope of the fund.

Enrollment and Revenue

The FY 2021-22 revenue projections are updated to reflect the State OASIS average daily membership (ADM) count period, completed in October, for FY 2020-21, with changes based on current enrollment projections for FY 2021-22. As District enrollment drives the State funding formula, which in turn sets a cap on local funding, it is important to consider the enrollment outlook.

The OASIS count forms the baseline enrollment for the Fall of 2021 which is then projected through the fall of 2027 based on a basic demographic model using birth rates, PFD enrollment, municipal projections, etc. Using the FY 2020-21 Adopted Budget as the baseline, the District is projecting a decline of 1,178 regular ADM (approximately 2.7 percent), and an increase of 1,264 correspondence ADM (approximately 111.0 percent) to be used as the basis for the preliminary revenue estimate, however this is subject to change as more detailed projections become available. Additionally, a decrease of 66 students with intensive needs are projected for FY 2021-22, a decrease of about 6.1 percent.

Current Law

The current law funding scenario is prepared using a Base Student Allocation (BSA) of \$5,930 as set by Alaska State Statute AS 14.17.470. For FY 2021-22, there are no one-time funds in statute similar to FY 2018-19 and FY 2019-20 which provided \$20 million and \$30 million statewide, respectively.

Table 1 on the following page shows the Foundation Formula for State funding and the local maximum contribution from the municipality. Three scenarios are shown including the Adopted FY 2020-21 budget, the preliminary OASIS count for FY 2020-21 and the FY 2021-22 Foundation Formula based on current law and preliminary demographic estimates.

The preliminary OASIS count for FY 2020-21 is 3,842.52 ADM (-5,516.97 fewer facilities based and 1,674.45 more correspondence) lower than the projection in the Adopted budget. The projection for FY 2021-22 is 3,928.66 more ADM than the OASIS count. For the budget-to-budget basis of comparison, which is being used when comparing revenue, the ADM increase is projected to be 86.14. Please keep in mind the District is still waiting

on official enrollment projections from the contracted demographer as well as more refined estimated of the number of students expected to return to correspondence programs.

Table 1.

	Line #	Adopted FY 2020-21	Current ADM Revenue Projections FY 2020-21	Pro Forma ADM Revenue Projections FY 2021-22
BSA	1	5,930	5,930	5,930
ADM	2	44,041.00	38,524.03	42,862.69
<i>ADM change</i>	3		(5,516.97)	(1,178.31)
Correspondence ADM	4	1,139.00	2,813.45	2,403.45
<i>Correspondence ADM change</i>	5	14.42	1,674.45	1,264.45
Total	6	45,180.00	41,337.48	45,266.14
<i>Aggregate SS Adjust Factor</i>	7	1.118841	1.144074	1.124951
School Size Adjust	8	49,274.88	44,074.34	48,218.43
<i>School Size % Change</i>	9		-11.16%	-2.81%
Hold Harmless Provision	10		4,151.93	695.91
Special Needs Factor	11	59,129.85	57,871.53	58,697.21
CTE Factor	12	60,070.40	58,739.60	59,577.67
SPED Intensive	13	1,091	949	1,025
<i>IN change</i>		69	(142)	(66)
Intensive Adjustment	14	14,183.00	12,337.00	13,325.00
Total Student + SPED	15	74,253.40	71,076.60	72,902.67
Correspondence ADM - 90%	16	1,025.10	2,532.11	2,163.11
District adjusted ADM	17	75,278.50	73,608.71	75,065.78
Basic need (BSA x AADM)	18	446,401,505	436,499,650	445,140,075
Required local effort (property taxes)	19	107,883,578	108,008,941	112,285,204
Eligible Impact Aid	20	16,000,000	16,000,000	16,000,000
Impact Aid %	21	49.78%	49.78%	49.78%
Deductible FIA	22	7,168,320	7,168,320	7,168,320
Total State Aid	23	331,349,607	321,322,389	325,686,551
Quality Schools - \$16/adj adm	24	1,204,456	1,177,739	1,201,052
Total entitlement	25	332,554,063	322,500,128	326,887,603
Total projected state revenue	26	332,554,063	322,500,128	326,887,603

Revenue Projections

OMB is projecting a decrease in total General Fund revenue from the FY 2020-21 budget to the FY 2021-22 Pro Forma in the amount of \$10.52 million (-1.83 percent), reflecting increases in local taxes, offset by decreases in State funding, Federal Impact Aid, interest earnings, and a reduction in the use of fund balance.

Local Revenue

Local revenue consists of municipal tax contributions, interest earnings, E-rate, user fees (tuition, summer school, activities, parking, etc...) and other various revenue sources.

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State Revenue

OMB prepared the Pro Forma Financial Outlook based on current law and is anticipating a 1.70 percent decrease in total state funding, approximately \$5.666 million, for FY 2021-22. This is based on a BSA of \$5,930 which has remained unchanged since FY 2016-17. The decrease is primarily due to cost shifting to local taxes based on the Required Local Contribution and expected decreases in students with intensive needs, partially offset by increases in projected total ADM and from the FY 2020-21 Adopted Budget.

The combined State and local tax revenue decrease of \$1.55 million can be broken down

- Service/supply/equipment/other expenditure levels are generally based on a 0 to 3 percent increase, with some outliers being described in subsequent sections of this document. Supplies and equipment funding has been losing ground for years as flat funding has eroded purchasing power. While the District has increased efficiency to make up the difference, inflation will continue to eat away at the District's ability to procure goods and services.

GENERAL FUND STAFFING

The FY 2021-22 Pro Forma General Fund budget total is \$17,425,900. The FY 2021-22 Pro Forma General Fund staffing is 118 FTE.

have not settled contracts extending past FY 2020-21, all of which have District medical contributions that are subject to negotiation.

Attrition/Vacancy

The District continues to experience vacancies and turnover, particularly among special education specialists, special education teacher assistants and other hard-to-fill positions, however the potential for lower turnover exists as fewer opportunities may be available in Anchorage's current economic condition. The attrition offset for salaries increased to \$5.1 million and the benefit attrition, which includes offsets for medical waivers, was increased to \$15.5 million in FY 2020-21 as more employees in the District's self-insured plan continue to waive medical coverage. The District is continuing to evaluate and refine its attrition estimates to be included in the Preliminary FY 2021-22 Budget.

Other Benefits

Other benefits including retirement, life insurance, Social Security, Medicare, workers' compensation, and unemployment insurance, are expected to increase close to the same percentage as salaries increase per the negotiated agreements.

Table 4 on the following page shows the anticipated changes in salaries, wages and benefits based on reduced enrollment and contractually obligated costs (both approved and those which are tentatively agreed).

Table 4.

General Fund Salaries, Wages and Benefits		FY 2020-21 Adopted	FY 2021-22 Pro Forma [1]	Change	
				\$	%
Line #	Salaries and Wages				
1	100 - Instruction	\$ 165,224,509	\$ 166,089,371	\$ 864,862	0.52%
2	200 - Special Education Instruction	55,460,092	55,822,262	362,170	0.65%
3	220 - Special Education Support Services	15,058,280	15,142,788	84,508	0.56%
4	300 - Support Services - Students	18,142,697	18,238,373	95,676	0.53%
5	350 - Support Services - Instruction	11,767,647	11,826,295	58,648	0.50%
6	400 - School Administration	15,650,735	15,807,244	156,509	1.00%
7	450 - School Admin. Support Services	9,667,041	9,763,709	96,668	1.00%
8	510 - District Administration	2,270,934	2,280,870	9,936	0.44%
9	550 - District Admin. Support Services	13,769,281	13,911,951	142,670	1.04%
10	600 - Ops and Maintenance of Plant	22,502,222	23,022,533	520,311	2.31%
11	780 - Community Services	236,317	237,593	1,276	0.54%
12	<i>Add: Staff from CARES Grant</i>	-	3,242,709	3,242,709	100.00%
13	<i>Less: Metrics Based Staff</i>	-	(4,109,146)	(4,109,146)	100.00%
14	Total Salaries and Wages	329,749,755	331,276,552	1,526,797	0.46%
	Other Payroll Outlay				
15	Substitutes	8,349,177	8,432,669	83,492	1.00%
16	Added Duty/Extra Help	12,181,636	12,364,861	183,225	1.50%
17	Personal Leave	5,035,764	5,085,767	50,003	0.99%
18	One-time Payments	1,069,117	270,000	(799,117)	-74.75%
19	Salary Attrition/Vacancy	(5,127,197)	(5,127,197)	-	0.00%
20	Total Other Payroll	21,508,497	21,026,100	(482,397)	-2.24%
21	Total Salaries, Wages and Other Payroll	351,258,252	352,302,652	1,044,400	0.30%
	Benefits				
22	Medical Insurance	100,088,386	102,804,002	2,715,616	2.71%
23	Teachers' Retirement System (TRS)	32,306,932	32,493,257	186,325	0.58%
24	Public Employees' Retirement System (PERS)	17,843,204	18,127,122	283,918	1.59%
25	Workers Comp	5,160,327	5,184,220	23,893	0.46%
26	Other (SS, MC, Unemp., Life ins, etc.)	12,282,722	12,383,814	101,092	0.82%
27	<i>Benefits for Staffing Changes</i>	-	(127,292)	(127,292)	100.00%
28	Benefit Attrition	(15,500,000)	(15,500,000)	-	0.00%
29	Total Benefits	152,181,571	155,365,123	3,183,552	2.09%
30	Total Salaries, Wages and Benefits	\$ 503,439,823	\$ 507,667,775	\$ 4,227,952	0.84%

[1] Potential costs of unsettled contracts are not included. Estimated costs to settle are in the \$5-\$10M range.

Other than Personnel Services

Costs for other than personnel services (OTPS) currently make up approximately 13 percent of the District’s General Fund operating budget.

In the Pro Forma projection, most purchased services, supplies, equipment and other costs are expected to track well below historic Anchorage CPI inflation as efficiencies are expected to be found and increase at a modest 0.5 percent.

Notable OTPS which are expected to change at a rate other than 0.5 percent are listed below:

Contracted Services

- Utilities – the overall cost of utilities is projected to increase at a rate similar to historic inflation (about 2 percent), most notably heating (+5 percent), electric (-1.03 percent, associated with rate decreases expected from the Chugach/ML&P merger), and telecoms (+10.3 percent, associated with new data charges for distance learning for low-income families). The utility rates continue to be difficult to predict as commodity prices and regulatory approvals have shown no clear pattern. Additionally, usage has varied widely during the last several years as weather conditions in Anchorage have been unpredictable.
- Instructional contracted services – the District is expecting to see an increase in the cost of software to support the ASD Virtual program, which was previously funded by year-end money allocated by the School Board. An increase of about \$2.7 million is expected to keep the same software packages that are in place for FY 2020-21.
- Student Allotments and correspondence support – consistent with the increase in correspondence school enrollment, student allotments and other supports are expected to increase by approximately \$5.3 million in FY 2021-22.

Supplies and Equipment

- Most other supply and equipment allocations are estimated using a 0.5% growth rate to maintain purchasing power.
- Student Supplies – expected to decrease by about 1.8 percent as a result of lower overall enrollment.
- Expendable equipment – technology costs, primarily associated with Chromebooks for the District's 1:1 initiative, are expected to increase approximately \$1.85 million, or about 154 percent above FY 2020-21.

Other

- General liability insurance and property insurance are again expected to increase in double digits for FY 2021-22. The District is still working with its insurance brokers and have included an increase of 10 percent for the purposes of the Pro-Forma, however, the actual cost will not be known until later in the Spring. Previous increases due to nationwide trends in traumatic brain injuries and sexual

abuse claims are now coupled with uncertainty surrounding liabilities that may arise from the Covid-19 pandemic.

Projected Budget Deficit

The projected budget gap between anticipated revenues and expenditures for the General Fund under current law is \$25.323 million as shown in the table 5 below. Total revenue is projected to decrease by \$10.525 million or -1.83 percent while expenditures are projected to increase by \$14.798 million, or about 2.57 percent. Again, note this deficit does not include costs associated with unsettled labor contracts which are expected to potentially cost in the range of \$5 to \$10 million.

Table 5.

Line #	Adopted Budget		Pro Forma		FY20 Adopted Budget vs. FY21 Pro Forma	
	FY 2020-21	FY 2021-22			\$	%
General Fund Revenue						
Local Revenue	1	\$ 225,422,949	\$ 220,703,663	\$ (4,719,286)	-2.09%	
State Revenue	2	333,112,547	327,446,087	(5,666,460)	-1.70%	
Federal Revenue	3	17,419,726	17,280,508	(139,218)	-0.80%	
	4	<u>575,955,222</u>	<u>565,430,258</u>	<u>(10,524,964)</u>	<u>-1.83%</u>	
General Fund Expenditures						
Salaries (net of attrition) [1]	5	351,258,252	352,302,652	1,044,400	0.30%	
Benefits (net of attrition) [1]	6	152,181,571	155,365,123	3,183,552	2.09%	
Contracted Services	7	52,191,402	60,653,301	8,461,899	16.21%	
Supplies	8	15,144,936	17,001,681	1,856,745	12.26%	
Capital Outlay	9	1,497,500	1,512,075	14,575	0.97%	
Insurance	10	3,681,561	3,918,455	236,894	6.43%	
Total General Fund Expenditures	11	<u>575,955,222</u>	<u>590,753,287</u>	<u>14,798,065</u>	<u>2.57%</u>	
General Fund Budget Gap	12	<u>\$ -</u>	<u>\$ (25,323,029)</u>	<u>\$ (25,323,029)</u>		

[1] Potential costs of unsettled contracts are not included. Estimated costs to settle are in the \$5-\$10M range.

Pupil Transportation Fund

The Pupil Transportation Fund is used to record revenues and expenditures associated with transporting students from home to school and back.

Transportation Revenue

State transportation funding is currently projected at approximately \$20.617 million, reflecting the current law rate of \$481 per non-correspondence ADM that has been in place since FY 2015-16. Due to the projected decrease in non-correspondence enrollment,

the District is expecting a reduction in State revenue of \$0.747 million. Local tax revenue is expected to decline by \$1.391 million as the District has reached the Municipal Tax Cap, primarily due to the increase in the RLC in the General Fund. Consistent with past pro-forma budgets, this projection does not include a use of Transportation fund balance. The Transportation Fund ended the most current fiscal year (2019-20) with \$1,642,043, of which \$500,000 was designated to be used in FY 2020-21. Current revenue declines associated with decreased enrollment for FY 2020-21 may further limit resources available in the Transportation Fund.

Transportation Expenditures

The following Transportation Fund pro forma expenditure projections for FY 2021-22 are based on:

- Current staffing levels
- wage and benefit increases
- fuel
- current levels of service in both District and contractor serviced routes, and
- transportation equipment leasing costs.

Personnel Services

Personnel service increases have leveled off from the voter-approved initiative which raised the minimum wage (and driver wages that are tied to 2 times the minimum) by a set dollar amount, and instead switch to inflation adjustments based on CPI. Beginning January 2021, the minimum wage will increase from \$10.19 in 2020³ and go to \$10.34, an increase of about 1.4 percent.

The District is anticipating increases to benefits to be tied to salary adjustments. The District is expecting to continue making Federally imposed contributions for the Alaska-Teamster Employer Pension Trust at \$1.54 per hour for those with less than 6 years in the plan and \$3.08 per hour for those with 6+ years. In addition to the Teamster pension obligation, the District also contributes to PERS for employees in the bus drivers and attendants union.

Other than Personnel Services

On November 16, 2015 the board approved a 10-year pupil transportation award of contract beginning in FY 2016-17 in the amount of approximately \$14.5 million per year with yearly cost increases based on Anchorage CPI. The administration is projecting an

³ State of Alaska Division of Labor Standards
<http://labor.alaska.gov/lss/whhome.htm>

Debt payments are expected to decline by about 11.2 percent to \$73.15 million in the next fiscal year.

Capital Projects Fund

These funds are used for major capital outlays relating to the acquisition, construction, and remodeling of capital facilities. Beginning with the 2015 Legislative session, there has been no capital grants allocated to the Anchorage School District. The administration has included a \$10 million request for upper limit authority for FY 2021-22, consistent with prior years, to accommodate legislative grants or other capital contributions, if received.

Student Activities Fund

These funds support the District's extracurricular activities and school sponsored clubs and organizations. Student activity funds are self-supporting, and money is collected primarily through fundraising activities. The amount expended in the Student Activities Fund typically falls in the \$6 to \$8 million range and upper limit authority is generally requested at the higher end. For FY 2021-22, the District is requesting approximately \$7.9 million in expenditure authority, the same as the current year.

Six Year Outlook

The Office of Management and Budget (OMB) has prepared a 6-year fiscal outlook of the District's General Fund with revenue forecasts and the resulting staffing changes based on current law and flat funding thereafter.

In the following model, utilities, services, supplies and materials, equipment and other costs remain consistent with current levels, with incremental cost increases being below projected inflation as efficiencies are expected to be gained over time. The remaining funds are allocated to wages and benefits and an FTE target is derived based on an average cost of wages and benefits per FTE. Adjustments to the average wages and benefits per employee are made based on expected inflation of 2.0 percent, in line with historical averages.

For the purposes of this model, FTE changes to balance the budget are made across all functions proportionate to each function's percentage of the total. This is an illustrative example to show the scope of potential service changes based on different revenue scenarios and not intended to bind future School Boards or Administrations to the staffing or program FTE, contained herein.

Additionally, the five years prior to FY 2021-22 have been included as a reference with FY 2017 through FY 2020 being actual revenue and expenditures and FY 2021 being the adopted budget data.

Anchorage School District 6 Year Outlook
Based on current law and 6 years of flat funding
prepared by AR - 11/16/20

Line #	CAGR	Description	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	TREND
Demographics														
1		Anchorage Population (SOA DOLWD)	297,739	294,488	291,845	291,000	289,500	287,800	286,200	286,200	286,200	286,200	286,200	
2		Public School K-12 Enrollment As Pct of ANC POP	16.01%	15.94%	15.74%	15.62%	15.61%	15.73%	15.96%	16.09%	16.11%	15.90%	15.90%	
3		ASD K-12 Enrollment (State ADM Count)	47,680	46,949	45,937	45,465	45,180	45,266	45,675	46,045	46,105	45,509	45,509	
4		Average Pupil Teacher Ratio	23.8	24.4	24.4	25.1	25.5	27.3	28.1	29.0	29.7	30.4	31.1	
5		ASD Special Education Intensive Students (State ADM Count)	834.0	876.0	948.0	1,022.0	1,091.0	1,025.0	1,025.0	1,025.0	1,025.0	1,025.0	1,025.0	
Revenue Outlook														
6		State of Alaska Base Student Allocation (BSA)	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	\$ 5,930	
7		State of Alaska Public School Foundation Formula	330.6	326.7	326.7	331.6	333.1	327.4	327.5	326.3	325.7	319.7	318.5	