



June 17, 2008

Columbia Public Schools
Board of Education

Dear Board Members:

It is critical we give you our position on the consideration of moving forward in the budget process with a plan to use fund balances for recurring expenses.

As we have established the twelve districts we compare ourselves to for teacher salaries, it is reasonable to compare ourselves in all financial factors to these same twelve districts. A comparison on the 6/30/07 fund balances for these twelve districts shows our current projections will place us at number 11 out of 12, with Mehlville schools being twelfth. Recently, the Chief Financial Officer for Mehlville was demoted for failure to clearly advise the Board of Education about the future impact of spending from reserves to give raises. Mehlville schools find themselves in very difficult financial times.

As recently pointed out by David Martin, our Assistant Director of Business Services:

- The City of Columbia's fund balance for the general fund on 9/30/07 was 29 percent.
- The University of Missouri - Columbia on 6/30/07 held a 27 percent fund balance, even though the University's revenue is not as concentrated in the winter months as ours is.
- Boone County's fund balance on 12/31/06 was 34 percent, which would be the county's low balance as they depend heavily on property taxes similarly to the school district.
- The State of Missouri's percentage on 6/30/07 was 11 percent; however, the state does not rely on property taxes, thus making this the state's low balance.

These fund balances of other government entities show that our fund balances are not out of line.

Allow us to take you back to May and review the information provided in our projections to the Board of Education. The projections indicated expected revenue over budget of \$306,000 and expected expenditures under budget of \$375,000 coming from salaries and benefits. Collectively, these would reduce the budgeted deficit by \$681,000, bringing it down to \$9,672,395. Additionally, it was indicated that in May we would have additional unspent operating budgets that would be known at the close of the school year.

This \$681,000 was an amount the Board set aside to use in helping reach the planned \$10 million in budget reductions. Furthermore, budget reduction items 70, 76, 85, and 100 have been added



back to the 2008-09 budget. Those items totaling \$210,500, added to the \$681,000 of reserve dollars set aside, resulted in budget reductions of \$9,108,500 rather than the originally planned \$10 million.

The projections provided in June show a total reduction in the 2007-08 deficit of \$2,212,000, \$1,011,823 of which comes from additional revenues (up \$705,823 from the previous estimate) and \$1,200,177 from unspent salary and operating budgets (up \$825,177 from the previous estimate). This is only \$1,320,500 more than the amount previously indicated to be set aside to help meet the \$10 million reductions.

We are having a better-than-average collection year in delinquent taxes, which has increased our revenues by nearly \$1 million overall, 83 percent of which ends up in the operating budget. This trend became evident when the May month-end financials were closed during the first week of June. Each of the last two fiscal years we have collected approximately \$2.5 million in these revenues, with the 2004-05 year resulting in only \$2,082,525 in delinquent tax collections. As of the payment received in June, we have collected just over \$3,300,000 for this fiscal year. It is difficult to presume these higher collections this year can sustain a 40 percent increase into next fiscal year, thus truly making those additional dollars one-time revenue.

The same is true for the unspent budgets totaling \$1,200,177; \$864,177 comes from operating budgets which buildings and departments did not spend during the 2007-08 year. These same budgets have been dramatically reduced next year, reducing the likelihood of similar unspent budgets at the end of 2008-09; \$336,000 of the unspent budgets in 2007-08 is from salaries and benefits which have also taken considerable reductions in the 2008-09 budget. We again feel these are one-time monies coming into the fund balances.

While it is the full intent of administration to monitor and ensure the \$9.1 million in final reductions is realized in 2008-09, this will be a difficult task. Reducing overtime budgets by 55 percent will be a big challenge for us, as we cannot plan on storms and emergencies that drive a lot of those overtime hours. Having instructional needs that go beyond the newly-reduced budgets may happen. Enrollment may create a need for several new sections to be opened in the fall, thus requiring new FTE and the associated costs for those. The Board of Education needs to have available balances for these types of fluctuations. Deficit spending and reducing reserve balances will make responding to these variances more difficult.

Also for your reference is a Web link, <http://www.moga.mo.gov/statutes/c100-199/1610000520.htm>, which delineates the Missouri statute regarding districts in financial stress, as well as Department of Elementary and Secondary Education information on fund balances, http://www.dese.mo.gov/divadm/finance/documents/2007-2008CalendarYear_EndReporting.pdf. DESE does not recommend a fund balance level, as each district is different in its reliance on local funding over state funding, cash flow trends, and so forth. It does set 3.00 percent as the lowest standard for districts before state action will occur.



In recent communication with school finance experts Alan Crader of L.J. Hart & Company, Jack Dillingham of Piper Jaffray, and Chris Straub of the Missouri Association of School Administrators, district administrators heard a common concern of the low fund balance and recurring deficit spending position Columbia Public Schools has adopted.

It is our opinion that if we use reserve balances to fund recurring expenses such as salaries, we will be putting the voters of this district in the exact same position as occurred a year ago. It is our firm belief that we must balance our budget and maintain a minimum of 16 percent reserves.

A balanced budget and an appropriately-funded reserve will enable this district to maintain long-term financial security and provide appropriate educational opportunities to all of our students and ensure job security to the employees of the district.

Sincerely,

Nick Boren
Chief Operations Officer

Linda Quinley
Director of Business Services