

## BUDGET MESSAGE

June 15, 2017

The 2017-2018 budget represents a long-standing tradition of sound financial management and long-range planning by the Park Hill Board of Education and district staff. The budget document is an excellent source of information that provides a better understanding of the financial plan and results of the district. This document has been prepared and presented to the Board of Education as a basis for the high quality educational services the Park Hill School District patrons have come to expect. In short, the budget provides the framework by which resources are allocated to accomplish the mission of the Park Hill School District, and serves to guide Park Hill in a fiscally sound and responsible direction for 2017-2018 and years beyond.

Park Hill is an award-winning school district with a bond rating amongst the highest in the state (Aa2 from Moody's) and with the highest recognition provided by Missouri for academic achievement. In Fall, 2015, Park Hill School District was awarded the Missouri Quality Award from the Excellence in Missouri Foundation for the second time in the last decade. Park Hill School District is the only school district in the state to receive this recognition twice. The Missouri Quality Award program is based on the Malcolm Baldrige National Quality Award Criteria for Performance Excellence. In addition, the Park Hill School District has received the Association of School Business Officials (ASBO) prestigious Meritorious Budget Award for ten consecutive years.

As a part of the district's strategic plan (Comprehensive School Improvement Plan or "CSIP"), the district has established a goal to maintain a sound fiscal position with transparency, integrity and efficiency. This budget document provides the foundation for public transparency, and also serves as the focal point for the communication of district financial processes to the community.

The work of developing the district budget is the work of many dedicated individuals, including board members, district administrators, school principals, school budget committees, school leadership groups, school improvement teams, directors, teachers, and support staff. The budget development process is an ongoing cycle taking place throughout the school year, requiring school leaders to simultaneously monitor and evaluate one budget while planning and developing future budgets.

Local, state and national economic conditions play a significant role in the budget development process. Mixed economic conditions have influenced both residential and commercial growth over the last five years. In short, the



### VISION

Building Successful Futures • Each Student • Every Day

### MISSION

Through the expertise of a motivated staff, the Park Hill School District provides a meaningful education in a safe, caring environment to prepare each student for success in life.

### VALUES

Student Focus  
Integrity  
High Expectations  
Continuous Improvement  
Visionary Leadership

nationwide economic crisis earlier in this decade significantly slowed assessed valuation growth, reduced the valuation of existing property, and negatively impacted state budget factors with reductions in income and sales tax. As seen by an increase in the new housing starts in the district over the last four years, economic conditions have improved locally and at the state level, positively impacting revenues for the Park Hill School District and Missouri public schools.

The taxes derived from local assessed valuation of property are the primary source of revenue in the Park Hill School District. The Platte County Assessor annually assesses the real and personal property in the school district. The 2016 district aggregate assessed valuation was set at \$1.57 billion, up 4.1% from the prior year. In tandem with Park Hill's ad valorem ("according to value") operating tax rate of \$4.9183, one of the lowest rates in the greater Kansas City area, nearly three quarters of all district revenue is generated. 2017-2018 local revenue estimates have been established reflecting a small increase (1.5%) in assessed valuation, and with the assumption of maintaining the current operating tax levy.

2017-2018 revenues are negatively impacted by shortfalls in state revenues over the last six years. The Missouri state foundation formula, the primary source of state revenue for Missouri public school districts, has not been fully funded by the state since the 2008-2009 school year due to economic conditions during this time in which state tax revenues (income, sales, other) have not met the minimum requirement to adequately fund the formula. While an increase in basic formula revenue is anticipated over 2016-2017, much of this increase is due to the district's increase in enrollment and student attendance, key variables within the foundation formula. While additional students drive revenue through the state formula, it also increases district expenditures. Due in large part to the effect on revenues by growth in district enrollment, total state revenues are expected to increase from \$37.7 million in 2016-2017 to \$38.7 million in 2017-2018.

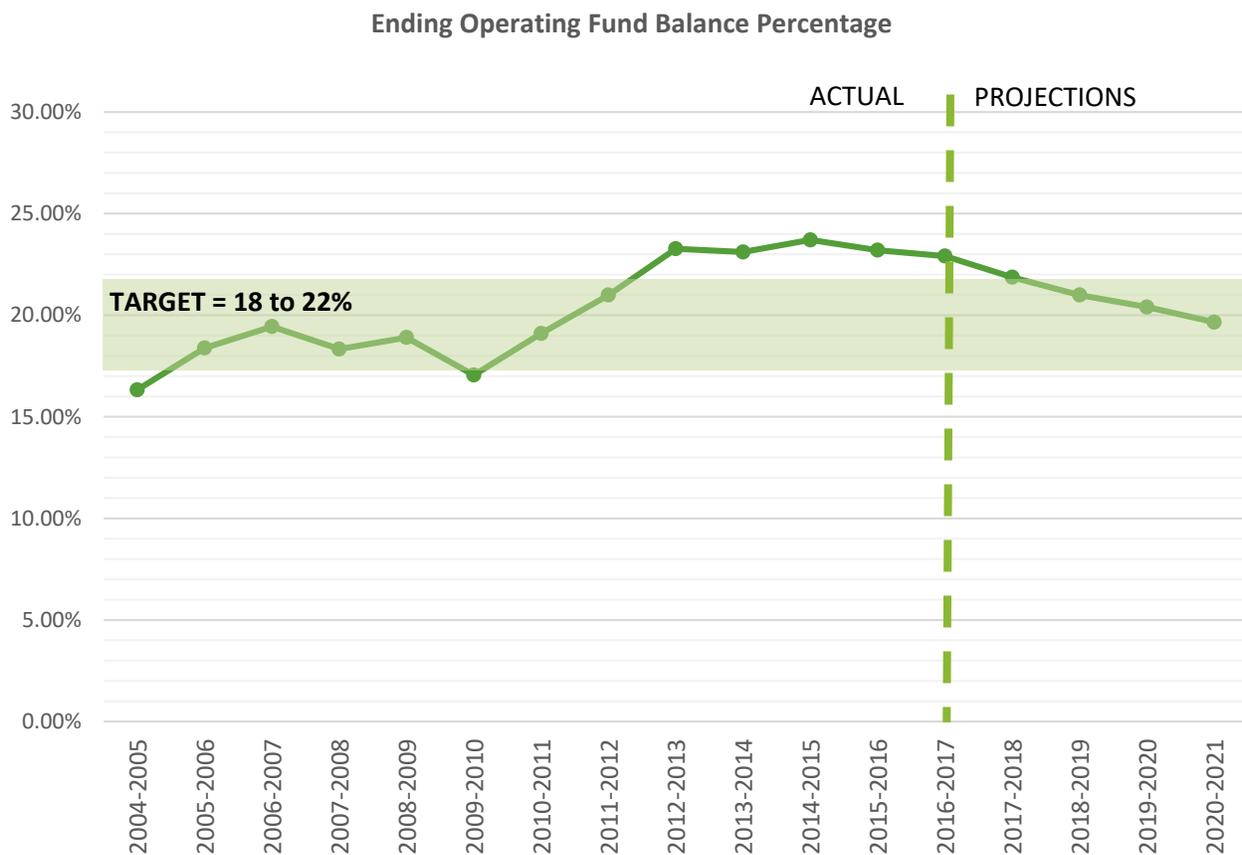
The 2017-2018 budget has been built with a forecast of \$183.2 million in total revenue and \$152.9 million in operating revenue (operating revenues exclude revenues derived from the debt service levy or sale/refinancing of general obligation bonds). This reflects an anticipated increase of approximately \$3.9 million in operating revenue from 2016-2017 primarily due to the increases in local revenues (property taxes, Proposition C), and state revenues (basic formula).

The 2017-2018 budget includes \$185.7 million in total expenditures and \$153.0 million in operating expenditures. The projected gap between operating revenue (\$152.9 million) and expenditures (\$153.0 million) is to be funded by district fund balances, which includes revenues and efficiencies from prior years. The use of fund balances in 2017-2018 has been a part of a long-range financial plan that includes supporting the new operating costs associated with funding the phase-in of a one-to-one technology program, supporting ongoing enrollment growth, and anticipating the operating costs associated with opening new schools within the next three years. It is anticipated that the district will develop deficit operating budgets through 2020-2021, strategically using efficiencies and accumulated fund balances from prior years to offset the fiscal year operating deficits.

The Park Hill Board of Education has established a target range for operational fund balance at 18 to 22% of prior year expenditures. For example, the operating expenditures (less capital) in 2016-2017 are projected to be \$136.3 million. Therefore, the Board of Education has established the target range for the operating fund balance at the beginning of the 2017-2018 fiscal year to be between 18 and 22% of \$136.3 million, or between \$24.5 million and \$30.0 million. Fund balance is a key metric that the district uses to measure the financial condition of the district, allows the district to meet cash flow demands throughout the school year, balance fiscal year surpluses and deficits, contributes to the exemplary bond rating given the district, as well as provide monies for contingencies. In short, fund balance allows for economic stability and sustainability of the district.

The projected opening operating fund balance for the 2017-2018 budget is projected to be 22.9% of prior year operating expenditures, or approximately nine weeks of operating cash. A commitment was made to the district community in 2002 to increase the fund balance. Over the last fifteen years, the fund balance has increased from 9.6% to the projected 22.9%. The increase outside the board established range of 18 to 22% has been done purposefully in prior years in order to offset the planned deficit budgets in upcoming years.

All future district budgets will be developed to maintain operating fund balances above 18%. The district utilizes forecasts for future years (budget year plus 3 years) to demonstrate the long-term sustainability of decisions/expenditures made in the current year. The graph below depicts 17 years of operating fund balance data for school years 2004-2005 through 2016-2017 (actual) and 2017-2018 through 2020-2021 (forecasted).



In April, 2017, district taxpayers overwhelmingly passed (83.9%) a \$110.0 million bond issue for the purpose of acquiring, constructing, renovating, improving, furnishing and equipping school facilities. More specifically, the projects within this bond included (a) constructing, furnishing and equipping a new middle school, (b) constructing, furnishing and equipping a new elementary school, (c) constructing, furnishing and equipping a facility for use by high school students, (d) constructing and equipping a facility for school support services, and (e) improvements and renovations to various school buildings. Planning for the district’s Middle School #4 and Elementary School #11 are currently underway and both are planned to open in the Fall, 2019 (2019-2020 school year). A high school facility is planned to open a year later. The timelines for other projects, including the construction of a new Support Services facility, will be finalized after the sale of the first series of bonds.

The district is planning to sell bonds to support these projects over a three-year period, beginning with the first sale slated for Fall, 2017. The strategic sale of revenue bonds over time supports (a) the cash flow necessary to construct the facilities within the timelines above; and (b) structure the debt over time as to maintain the district's current \$0.6107 debt service levy per \$100 of the assessed valuation of real and personal property, resulting in no tax increase for district taxpayers. The district's current debt service tax levy is the lowest in the greater Kansas City area. District staff and financial advisors will also consider assessed valuation growth, the bond market, interest rates, and interest rate risk to determine the size and number of the bond sales, the total not to exceed the \$110 million authorized by voters. For budgeting purposes, the 2017-2018 budget document reflects a sale of \$20 million in 2017-2018, \$60 million in 2018-2019, and \$30 million in 2019-2020. These figures and years may change based upon the factors listed above.

To assist the district in annual and ongoing capital projects, the district maintains a capital fund balance. The district Financial Focus Area Collaborative Team (FACT), a team made up of district staff and key stakeholders, has established a target for capital fund balance between 65 and 85% of the average of the prior 3-years actual capital expenditures. This fund balance allows the district to address the planned capital needs without revenues from the sale of general obligation bonds. The capital needs of the district vary greatly from year to year as maintenance cycles for facility upkeep (i.e. school roofs, flooring, parking lots) converge with technology maintenance cycles (i.e. laptop, technology equipment replacements), and other one-time capital needs (playground upkeep). Fiscal year capital expenditure totals have fluctuated over the three years between \$6.6 million (2013-2014) and \$12.5 million (2016-2017) to address various capital needs of the school district. The 2017-2018 budget includes \$8.0 million in (non-bond) capital expenditures.

#### *Total Budget*

The 2017-2018 budget has been crafted to result in an ending operating fund balance of \$31.7 million, 21.9% of prior year expenditures, which falls within the Board of Education approved range of 18 to 22%. The 2017-2018 budget also includes a plan for the ending capital fund balance to be \$9.6 million, 84.3% of the average of the prior 3-year capital expenditures. This falls within of the target range of 65 to 85%. The balances above the range are expected to be spent down in future fiscal years to address the capital needs in these years.

#### **Revenue**

The largest portion of revenue for Park Hill is the local property tax base – accounting for over 60% of the district's entire operating revenue. District revenues are expected to remain stable in 2017-2018 with small anticipated increases in local tax revenues due to an anticipated increase in assessed valuation, and in Proposition C revenue, a statewide sales tax. Other increases in revenue are due to local program growth, including increased participation in programs at the Gerner Family Early Education Center programming (pre-school), and the school-aged childcare (Adventure Club) program. Increased revenues from local programs carry with them increased expenditures as the programs expand the delivery of their services to more students and families.

There continues to be concerns among school districts and state officials as to the state's ability to fully fund the formula in upcoming years and the inability of the state legislature to approve changes to the state foundation formula and state revenues that result in fully funding the current formula adequately. The state continues to prorate the basic foundation formula based upon too little funding to support the required allocations. In addition, the legislature has recently passed tax reform initiatives that could have a dramatic impact to state revenues (and school funding) over the next decade. Overall reduction in state revenue impacts the sustainability of existing programs within all school districts in Missouri.

Per state law, the district's tax levy will be officially set at a tax rate hearing in August, 2017. At this meeting the Board of Education will decide on a tax levy rate. The 2017-2018 budget has been prepared with no anticipated change in the total tax levy of \$5.5290 (includes operating and debt service tax levies) per \$100 of assessed valuation. However, there may be changes to the tax rate ceiling (made by the Missouri State Auditor) or the actual tax rate based upon the certified aggregate assessed valuation figures provided by the Platte County Assessor prior to the tax rate hearing.

### **Expenditures**

The district's expenditures have increased over the last three decades primarily due to student growth. Student enrollment has grown by an average of 151 students per year over the last 25 years, with current official K-12 enrollment of 11,287 students in the 2016-2017 school year. In 2016-2017, the enrollment grew by 176 students. The 2017-2018 budget has been crafted to support a district enrollment of 11,470 students, an increase of 183 students (+1.6%).

With enrollment growth comes additional staff to support class size and support staff to student ratios. In addition, increases in the district's contribution to employee benefits, fuel and energy costs, and contracted increases in student transportation costs, supplies, and other budgeted areas result in expenditure growth.

Through a collaborative negotiations process with staff, the district has agreed to fund salary schedules that reflect 2.58% increases in salary, and a 2.74% increase in total staff compensation (salary and benefits). Staffing ratios in all areas will remain consistent for 2017-2018 which will result in a number of additional staff positions, all dependent on actual student enrollment growth.

Capital projects financed through the district's capital fund have been budgeted cycling out antiquated technology and equipment, repairing facilities as needed (roofs) and replacing HVAC systems as needed. The district is committed to working collaboratively with patrons and staff to provide facilities to meet student and staff needs.

### *Conclusion*

This budget is developed with the best and most recent information available to school district officials. Anticipated expenditures and revenue are estimated projections based on this information. Budget revisions may be made during the budget year to reflect unforeseen circumstances.

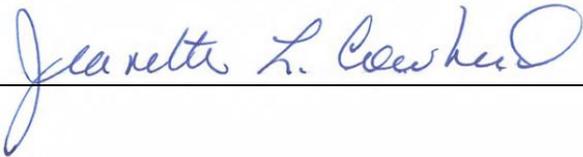
The information included in the budget document is structured to meet the requirements of the Meritorious Budget Award established by the Association of School Business Officials (ASBO). The Meritorious Budget Award is the highest form of recognition in budgeting for school entities. Its attainment represents a significant accomplishment by a school entity and its management. To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan and as a communications medium. The district is proud to have received the Meritorious Budget Award for the last ten consecutive fiscal years.

The preparation of this report could not have been accomplished without the diligent and dedicated services of the business office and the many district administrative assistants involved in the budgeting processes. We would also like to express our appreciation to the administrators for striving to maintain a tradition of educational excellence in a fiscally responsible manner. Our sincere appreciation also goes to the Park Hill School District Board of Education and our community for providing the fiscal support needed to develop, implement and maintain the high quality of

educational programs that has allowed the Park Hill School District to focus on *Building Successful Futures, Each Student, Every Day*.

We are truly hopeful that this document will provide information that will allow the reader to understand the district's financial operations as well as its goals and objectives and how they relate to our education programs and services for the 2017-2018 fiscal year and beyond.

Respectfully submitted,



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Park Hill School District



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Park Hill School District