

OFFICE OF THE SUPERINTENDENT

Millburn Public Schools

INFORMATION ITEM

September 7, 2010

To: Board of Education Members

From: Ellen E. Mauer, PhD

Subject: Budget FY11

It was requested by a BOE member to add this item to the agenda for a brief presentation regarding concerns with the FY11 budget. Attached is a copy for your review.

Bob Reding, Board Member

September 7, 2010

# **REQUEST FOR CHANGES TO THE BUDGETING PROCESS**

# SUMMARY

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Hold vision sessions

Expand the budget horizon from 1 to 5 years

Better incorporate contingencies into the budget

Create scorecards with narratives

Establish a finance subcommittee

## HOLD VISION SESSIONS

EXPAND THE BUDGET HORIZON

BETTER INCORPORATE CONTINGENCIES

CREATE SCORECARDS WITH NARRATIVES

ESTABLISH A FINANCE SUBCOMMITTEE

# HOLD VISION SESSIONS

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# PROBLEMS

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Lack of long term vision makes other areas more complex: referendum, 5 year plan, budget, and business manager's ability to integrate vision into her work

Opens the board up to criticism regarding issues such as paying down the debt, K-8 versus grade level centers, what happens if enrollment falls below Central's capacity

# SOLUTIONS

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Ask each board member what long term issues they wish to see resolved, e.g.,

- ✘ Are we going to pay down the debt? When?
- ✘ Grade level centers or K-8?
- ✘ Will we have to close West? When?

Continue to hold meetings until we can resolve all the issues that affect long term planning

Everyone supports the board vision whether they agreed with it or not until the next round of Vision meetings

Create a synergy around our decisions

Do it sooner rather than later

HOLD VISION SESSIONS

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**HOLD VISION SESSIONS**

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# PROBLEMS

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Five one-year budgets won't get us to our 5 year plan because one year budgets don't adequately address long term issues, e.g., debt and enrollment

People tend to fill in unknowns with wishful thinking when facts are available

Opens the board up to criticism that we don't have a realistic financial plan, e.g., if we pass the referendum we won't pay down the debt but if we do pass the referendum we still won't pay down the debt



## WISHFUL THINKING

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We'll borrow money now and run a referendum later to pay down the debt

We can't pay down the debt this year but for sure we'll pay it down next year

Next year the economy will be better and our financial problems will disappear

We'll never need to close West because enrollment will pick back up

We have a balanced budget so there is no need to take corrective action this year

# SOLUTIONS

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Based on the vision and 5 year projections,  
sketch out five one-year budgets that meet our  
goals

Then create a detailed budget for the upcoming  
year

HOLD VISION SESSIONS  
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**HOLD VISION SESSIONS**

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# BACKGROUND

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Our school year has three key decision points: approve the budget in September, hire teachers in Feb/Mar, and approve the tax anticipation warrant (TAW) loans in August.

When we have a realistic budget that has a cushion for unexpected variances we:

- ✘ hire the right amount of teachers
- ✘ borrow enough money to manage cash flow
- ✘ pay down the year's portion of debt

But when we have an unrealistic budget, we:

- ✘ hire too many teachers
- ✘ borrow money not just for cash flow but also to cover expenses unmatched by revenues
- ✘ increase our debt

# PROBLEMS

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We “balanced” our budget by selling off our fleet of busses.

We budget the same State tax revenues as last year, don't really expect to receive all the money from the state, and use the money to hire teachers

If we had \$500,000 in variances last year, we should anticipate it can happen again

Having to borrow an additional \$500,000 in TAWs shows we did not properly account for contingencies

# PROBLEMS

## Revenue Summary – Operating Funds (Education, O&M, Transportation, WC)

	Budgeted 2009-10	*Actual 2009-10	Budgeted 2010-11
Local	\$8,940,576	\$8,715,731	\$9,118,776
State Aid	\$4,573,548	\$4,179,351	\$4,176,652
Federal Aid	\$ 854,930	\$ 841,020	\$ 149,000

\*unaudited actuals

## Expenditure Summary – Operating Funds (Education, O&M, Transportation, WC)

	Budgeted 2009-10	*Actual 2009-10	Budgeted 2010-11	% of Budget
Salaries	\$9,275,496	\$9,564,623	\$9,521,931	72%

# PROBLEMS

## Revenue Summary – Operating Funds (Education, O&M, Transportation, WC)

	Budgeted 2009-10	*Actual 2009-10	Budgeted 2010-11
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# SOLUTIONS

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Continue to use and document the same assumptions we used in PMA projections

Document why we had contingencies from last year and why they won't recur

Quantify and document risks in revenue and expenses

Provide for contingencies

Monitor budget versus actual revenue and expenses and cash flow monthly and highlight exceptions



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## PROBLEMS

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Board members and public need help in wading through financial information and putting data into a format that supports decision making

If Mary knew what questions needed to be answered at each meeting she could more efficiently provide the details we need

Board members may wish to focus their time weighing alternatives rather than individually computing numbers guessing at assumptions

We focus too much on income statement (balanced budget) and not balance sheet (debt)

## EACH MONTH

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Are we on budget with respect to revenues and expenses, and cash flow?

Will we have to take corrective action to address any variances?

# HIRE TEACHERS

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Do our TAWs provide enough cash flow to pay for the teachers we are hiring?

Can we hire this many teachers and still pay down the debt?

## BORROW TAWS (LOANS)

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Will we need to increase TAWs?

If so, are we doing it to handle cash flow or unexpected variances in expenses not matched by revenues?

# BUDGET

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Does this budget integrate with our five year plan?

Are we using the same budgeting assumptions as our five year plan?

What is our projected enrollment?

At what point should we consider moving all Lakes bound students to Central or move remaining West students to Central?

Is this a balanced budget in the sense that operating revenues cover operating expenses?

What were our variances from last year?

What was the source of our variances?

Are we on track to paying down the debt?

## SAMPLE NARRATIVE

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This year our budget indicates that our operations will be negative \$130,000 but taking into account the sale of the fleet of busses, we will have \$114,000 more in cash at year end than we started with. Regardless of whether we pass the referendum or not, we will not pay down the debt this year. Our current estimate is that it will take  $x$  years to pay down the debt at a rate of  $\$y$  per year. Our revenue numbers were reduced by  $x\%$  to provide for a contingency (cushion/padding) in case revenues are less than expected. We are in the process of securing \$4,000,000 TAWs in case of cash flow problems with the state, revenues are reduced, or expenditures are increased.

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# PROBLEMS

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Financial expertise available in the district goes untapped

When the community is not involved, the community's confidence in the budget is not as high as when the community is involved

# SOLUTIONS

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Establish a finance subcommittee comprised of our business manager, one board member, and a few well qualified, financially savvy members of the district

Primary responsibilities would be to help with planning and budgeting and provide special expertise, e.g., negotiating bus leases

## NEXT STEPS

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