



DATE: August 12, 2009

TO: School Board Members

THROUGH: Gregory Lynch, Superintendent

FROM: David McVicker, Executive Director of Business and Operations

SUBJECT: 2009-10 Budget Executive Summary

Introduction

This has been an extremely challenging year. The national, state and local economic downturn has resulted in a \$5.2 million dollar shortfall for Central Kitsap School District. Federal stimulus and stabilization funds have added complexity and promise to the development of the 2009-10 budget. The Task Force Resource Steering Committee, the Budget Development Team, the Community Finance Committee and Program Review Committees have worked together to develop a plan to address this shortfall.

The District continues to face additional challenges which impact our financial outlook. Declining enrollment reduces all our state and most federal allocations. Energy, fuel and food costs are still increasing. State funding formulas do not apply the increase in salary and benefit rates to all salaries for all employees. Without significant changes from the federal or state levels to fully fund education, our challenges will continue.

Budget Summary

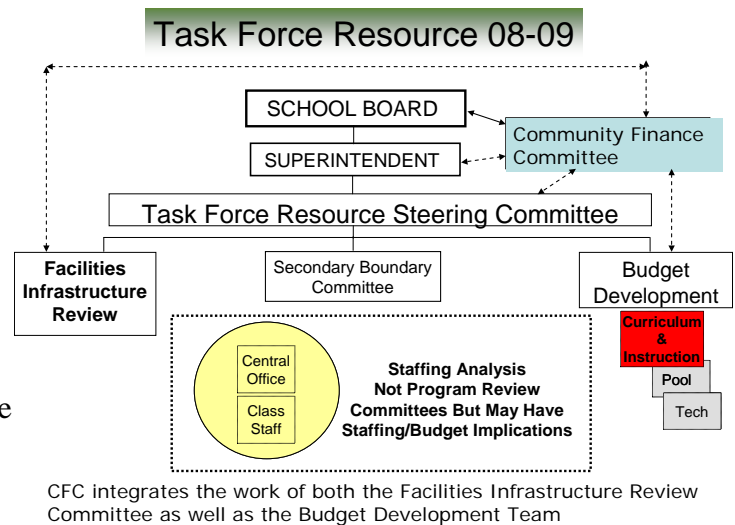
The ending balance includes a 3% undesignated reserve of \$3,395,857 and the Federal Contingency reserve of \$4,100,000, but is still \$383,662 short of these goals.

FUND	YEAR	BEGINNING BALANCE	REVENUES	EXPENDITURES	ENDING BALANCE
GENERAL	2009-10	\$12,049,321	\$113,195,229	\$115,510,155	\$9,734,395
	2008-09	\$12,193,811	\$114,785,518	\$117,126,277	\$9,722,123
ASB	2009-10	\$847,442	\$2,621,095	\$2,582,937	\$885,600
	2008-09	\$742,934	\$2,663,862	\$2,665,671	\$741,125
CAPITAL PROJECTS	2009-10	\$9,250,000	\$2,850,000	\$6,482,200	\$5,617,800
	2008-09	\$10,635,325	\$3,900,000	\$8,441,350	\$6,093,975
TRANSPORTATION VEHICLE	2009-10	\$383,846	\$674,704	\$1,026,208	\$32,342
	2008-09	\$159,527	\$510,000	\$587,148	\$82,379
DEBT SERVICE	2009-10	\$6,356,397	\$9,849,998	\$10,705,175	\$5,501,220
	2008-09	\$6,755,343	\$10,070,929	\$10,429,084	\$6,397,188

Task Force Resource

This past year, the Task Force Resource structure included Budget Development, a Secondary Boundary Committee and completion of the Facilities Infrastructure Review Committee.

Program Review sub-committees on curriculum and instruction, swimming pool and technology part III all brought options for possible reductions forward. All of these options were reviewed by the reconfigured Budget Development Team. This team was charged with developing options for budget reductions to the Task Force Resource Steering Committee and the Community Finance Committee.



The Secondary Boundary Committee brought forth recommendations to change secondary school boundaries for the 2009-10 school year. Students registered this spring using the new boundaries to help improve our student balance which improves course offerings and reduces the need to add extra staffing.

The Facilities Infrastructure Review Committee recommendations were completed this past fall. Those recommendations have been passed on to the Community Finance Committee for consideration as part of a future Capital Projects measure. These recommendations, made by the sub-committees, were vetted by the Task Force Resource Steering Committee and Superintendent Lynch prior to presentation to the School Board.

General Fund Budget Development Process 2009-10

The General Fund budget development process was modified this year.

1. Spring Budget Projection

In conjunction with the Preliminary Budget for 2008-09, a long-range budget projection was completed. At that time (June 2008) a projection for the 2009-10 budget yielded a \$1.55 million dollar shortfall.

2. Year End Report

On November 25, 2008, following the close of the 2007-08 school year, a Year End Report was prepared for the Board of Directors. The enrollment projections were adjusted and the Ending Fund Balance was reviewed. Based on this information a second projection of the 2009-10 budget was completed and resulted in a \$1.4 million dollar shortfall. The five year long-range projection was also updated and the budget development process for the 2009-10 budget was reviewed. Visits to each building and department were conducted by the Executive Director of Business and Operations to share the budget update and answer questions.

3. Governor's Budget Proposal

On December 18, 2008, the Governor delivered her proposed budget for the biennium. In early January the impact of the Governor's budget was shared with the Board of Directors and Central Kitsap School District's projected shortfall was adjusted to \$3.25 million dollar. Following this news the School Board requested time to review their priorities in order to provide input early in the budget development process. Time for those discussions was provided at School Board Study Sessions and during the School Board meetings on January 14, 22, and 28, 2009. It was determined that the Curriculum and Instruction Review, previously put off for the 2009-10 school year, must be completed at this time. The budget projection was further reviewed following enrollment projections in February and adjusted to \$2.65 million dollar based on increased enrollment.

4. Budget Development Team

The Budget Development Team (BDT) began meeting in December to review the budget development process and the options for budget reductions. Following the Governor's budget and the decision to review Curriculum and Instruction, the BDT began developing two lists of possible reductions. The first list included those reductions that came from: previous Program Review Committees, options previously introduced to the BDT, and input by buildings through a process during the 2007-08 school year. These lists were analyzed and categorized. Those reductions that could reasonably and legally be considered remained on the list. The second list contained possible reductions from the Curriculum and Instruction Review. The total of both these lists provided reductions greater than the \$2.65 million dollar current projected shortfall. Later the team combined both lists and presented them to the Staff and Community for input to develop a Prioritized List.

5. Staff and Community Input

Regular communication with staff and community through Task Force Resource Steering Committee updates, Board meetings and E-news provided information to all stakeholders. The House and Senate proposed budgets were released on March 30 and 31. The impact of these proposed budgets was reviewed and the new projected budget shortfall for CKSD became a range of \$4.1 M - \$5.7 M. A set of four meetings for staff and community were conducted on April 14 and 16, 2009. School Board members attended most of these events. The meetings provided information on the projected shortfall and the possible reductions. The staff and community provided feedback on the list of possible reductions and specific areas of priority.

6. Integrated Priority List

Feedback from staff and community was used by the Budget Development Team and Task Force Resource Steering Committee to prioritize the reduction list. The feedback regarding larger priorities for the District helped to sort the Priority List further so that some items were reduced or eliminated, some were suspended, others were funded, and a final group was prioritized. This list totaled approximately \$3.5 million dollars in possible reductions.

The budget development process also included consideration of additional revenue sources that could be used to address the gap between the list of reductions and the projected shortfall. I-728 carryover funds, additional Curriculum and Instruction Review reductions, Title I stimulus funds and Special Education stimulus funds were reviewed and over \$1.4 million dollars in additional revenue was identified at this time for use in closing this gap.

7. Community and Staff Feedback

On April 27, 2009, the Legislature adjourned with an adopted Conference Budget. Based on a short review of the information, the projected shortfall was adjusted to \$5.7 million dollars. Using that information, meetings for staff and the community were held on April 29, 2009, to review the Priority List and provide additional feedback regarding the priorities. Those that were unable to attend the meeting were also given the opportunity to provide feedback via survey for the Budget Development Team, Community Finance Committee and Task Force Resource Steering Committee to review. Over 800 surveys were completed.

8. Recommended Integrated Priority List

The Community Finance Committee, Budget Development Team and Task Force Resource Steering Committee met on May 5, 2009 to review the feedback for the Integrated Priority List and determine if any changes in priority should be recommended. They made several changes which produced a Recommended Integrated Priority List for the Superintendent and the Board of Directors.

The Board met in a study session on May 6, 2009, to review all the information from the budget development process. Questions and clarification issues were identified. It was

determined that a second study session was needed and scheduled prior to the next Board meeting on May 13, 2009. At this study session answers and clarification were provided to the Board of Directors. During the regular Board Meeting, the Business Office was directed to continue building the 2009-10 preliminary budget using the current Integrated Priority List.

9. Preliminary Budget Presentation to the Board of Directors.

The Preliminary Budget was presented to the Board of Directors on June 17, 2009, for approval. Following the approval, the District Budget was delivered to the Olympic Educational Service District for review and compliance.

10. Budget Hearing and Board Adoption of the Final 2009-10 School Year Budget

The Budget Hearing and Board adoption of the final 2009-10 Budget is scheduled for August 12, 2009.

Mission and Goals

The mission of Central Kitsap School District is summarized in the following statement.

“All Students Learning Well”

These are the five strategic planning goals which were adopted by the School Board:

1. Maximize learning for each student.
2. Ensure an effective and highly skilled staff.
3. Maintain a fiscally sound budget aligned to district goals.
4. Provide a safe and supportive environment for learning.
5. Engage families and the community in achieving the goals of the district.

All budget decisions are filtered through the District’s mission statement and strategic planning goals.

Community Finance Committee

The Community Finance Committee (CFC) was created by the School Board in 1985. School Board Policy 1240 outlines its guiding principles and membership requirements.

The CFC consists of nine to sixteen community members who are appointed by the School Board, and one member each representing the Central Kitsap Education Association (CKEA), the Central Kitsap Educational Support Professionals (CKESP), the Central Kitsap Principals and Directors Association (CKPDA), the Central Kitsap Parent, Teacher, Student Association (CKPTSA), and the Student Council. The Executive Director of Business and Operations acts as chairman but does not have voting privileges.

The responsibilities of the CFC are:

1. To collect, review, and analyze District financial data,
2. To assist in developing a long-range fiscal strategy for the District,
3. To develop, in collaboration with the Superintendent, budget and levy recommendations that support the District's mission and goals,
4. To serve as District liaisons to the community, and
5. To participate in developing community understanding of the District's finances.

This year the Community Finance Committee reviewed and analyzed the District budget, refined long-range fiscal strategy for the District and developed, in collaboration with the Superintendent, budget and levy recommendations that support the District's mission and goals.

The CFC reviewed, revised and provided input to the School Board regarding the eight long-range fiscal strategies.

1. Maximize enrollment by providing outstanding educational services.
2. Define core curriculum and student services and fully fund them. Fund other offerings as resources permit.
3. Implement Federal Contingency Reserve to mitigate impact of one time budgetary or revenue shortfalls, including potential loss of Federal Heavy Impact dollars.

2009 – 10 Community Finance Committee

Community Members

Michael Allen
Randy Biegenwald
Shannon Frith
Patrick Higgins
W. Greg Johnson
Traci Leslie
Anne Lunden
Wes Moore
Jon Pearson
Roy Rainey
Robert Ramsey

CKEA

Roxann Stewart

CKESP

Joanne Berentsen

CKPDA

Tess Danubio

CKPTSA

Clarke Whitney

ASB

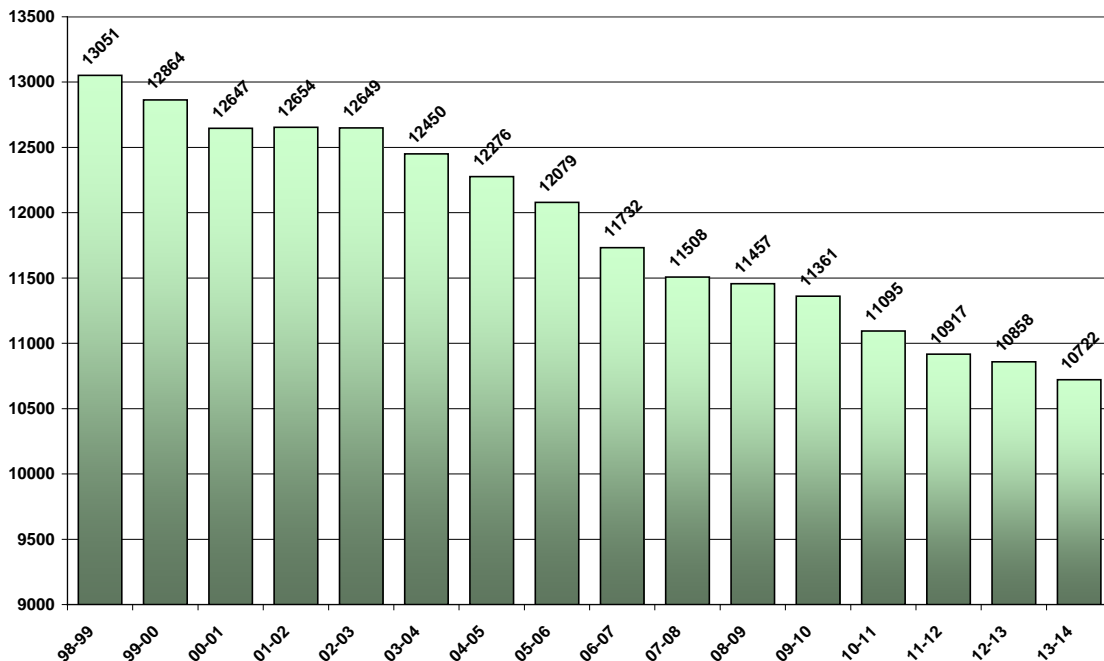
Steven Cook

4. Keep staff at the appropriate levels, while sustaining the current program. Maintain an appropriate staffing ratio of certificated to classified to administrators.
5. Identify sufficient reductions or an alternate funding source in the budget before adding unfunded programs or services.
6. Keep the undesignated reserve fund at a minimum of 3% of the total general fund revenues.
7. Keep total school building capacity at the optimum levels for operations. Consider closing schools and consolidating students as enrollment and economic circumstances warrant.
8. Maximize revenues from federal and state sources. Manage local revenue sources consistent with the District's Strategic Plan to maximize student achievement in a fiscally responsible manner.

The CFC presented a summary of their work regarding the School Support Levy and Capital Projects Levy to the Board of Directors on June 17, 2009 including their recommendation for running these measures in February 2010.

Enrollment

Long-Range Enrollment Forecast (FTE)



Central Kitsap enrollment peaked at an average Full Time Equivalent (FTE) of 13,051 during the 1998-99 school year and has been declining steadily since the 2001-02 school year. Enrollment has dropped by about 1,000 students in the past five years and is

projected to drop an additional 700 students in the next five years. The enrollment decline is forecast to continue into the near future.

Despite a recent demographic survey and analysis, the root cause of this enrollment decline remains unclear, but is definitely slowing. Birth rates in Kitsap County have increased during the 2007-08 school year. Housing prices have decreased significantly this year making it more likely that families with school-aged children may relocate here.

Total projected Full Time Equivalent (*FTE*) enrollment for 2009-10 is expected to be 11,361 students; 96 or 0.84% less than the average FTE for the 2008-09 school year. In comparison, FTE declined 0.43% from last year to this year. This year, actual FTE was more than budgeted FTE by 188. Enrollment for 2009-10 has been estimated conservatively.

Enrollment Projection Methodology

The enrollment projection for 2009 – 10 was made using February 2009 actual enrollment for grades K-7 and January 2009 actual enrollment for grades 8-12 as the baseline. Our traditional averages are changing slightly and these will be monitored annually as the District experiences enrollment fluctuations.

Kindergarten enrollment was projected for each elementary school by using the February kindergarten enrollment increased by 3.0%. First grade enrollments were projected by increasing the February Kindergarten headcount by 7.5%. Second and seventh grade enrollments were projected by rolling up the previous grade February enrollment and increasing it by 2%. Third and Sixth grade enrollments were projected by rolling up the February enrollment and increasing by 1%. Fourth and Fifth grade enrollment was projected using the February enrollment rolled forward with no increase. Eighth through Twelfth grade enrollments used the January 2009 actual numbers and then adjusted by the following amounts. Eighth grade was increased by 2%, Ninth grade was increased by 4%, Tenth grade was increased by 3%. Eleventh grade was decreased by 14% and Twelfth grade was decreased by 10% from the previous grades. These formulas are based on “an analysis” of the average rollup factors from January of each year compared to the annualized enrollment of the following year. The analysis of the school years 1994-95 through 2007-08 were used. Significant trend shifts in the last five years were reviewed to verify that the rollup percentage average was still valid.

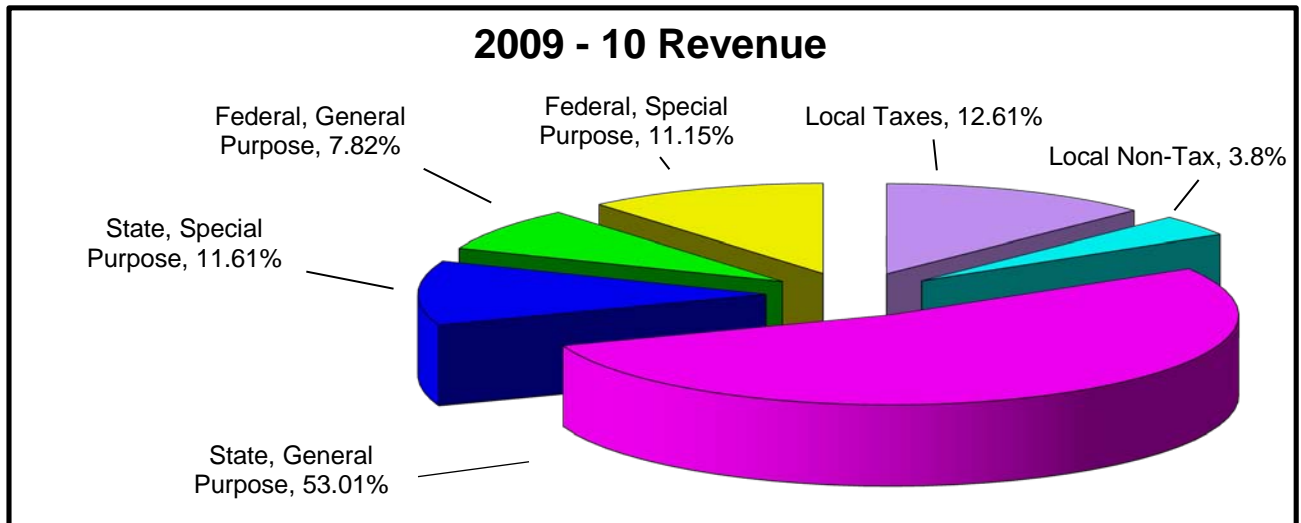
Alternative School headcount projection was assumed to equal the current enrollment of the various sites. Running Start headcount projection was projected to be 16% of the January 2009 Twelfth grade enrollment.

Budget Recommendations

The following budget recommendations were developed by the BDT and the CFC. They were vetted by the TFR Steering Committee and approved by the Superintendent before presentation to the School Board.

1. Limit operating adjustments to maintain current programs.
2. Adjust staffing through attrition to match the projected decline in student enrollment.
3. Reduce expenditures \$3,283,038 by making the changes outlined on the following 2009-10 Recommended Budget Adjustments.
4. Maintain the “Federal Contingency Reserve” established to cover potential loss of Heavy Impact dollars. Reduce the reserve by \$383,662 as a result of the Recommended Budget Adjustments. Develop a plan to refresh the reserve to the appropriate level following the End of Year report in November.
5. Develop a plan for use of the IDEA stimulus funding to limit the reduction of “Federal Contingency Reserve” (#4), provide options for 2010-11 budget, and provide one time expenditures (curriculum assistive technology, etc.) to Special Education students.

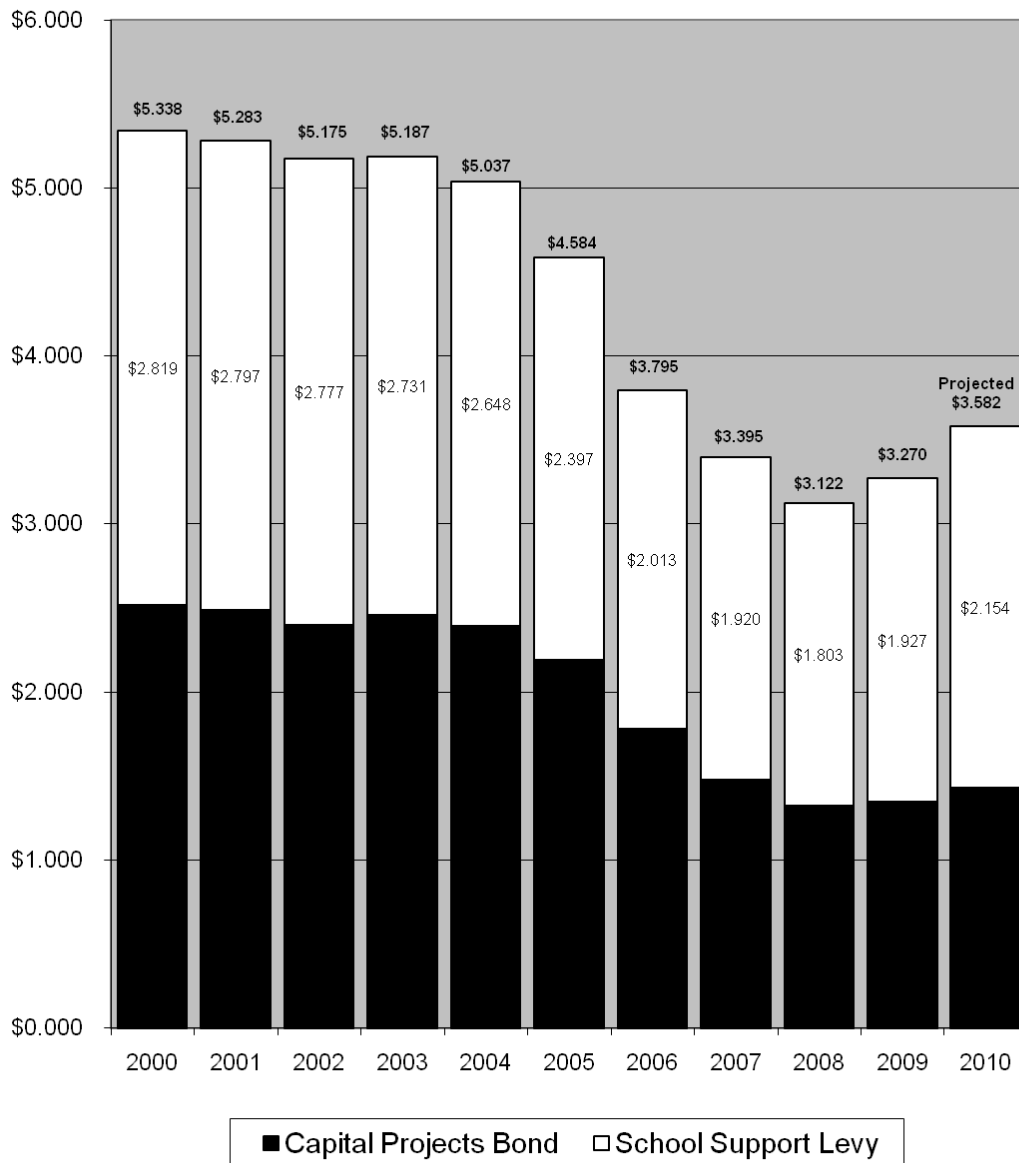
General Fund Revenue



Local sources decreased to 16.41% of total revenues as compared to 16.48% last year. State apportionment increased to 64.62% of total revenue as compared to 63.96% last year. Federal sources decreased to 18.97% of total revenue as compared to 19.56% last year.

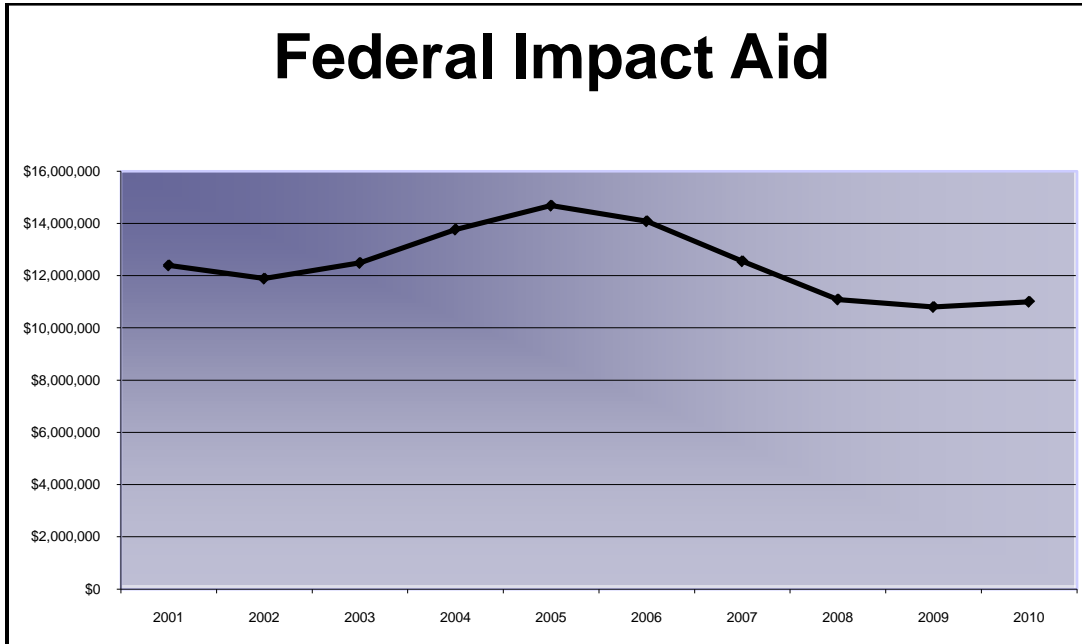
Levy Rates

Levy Rates

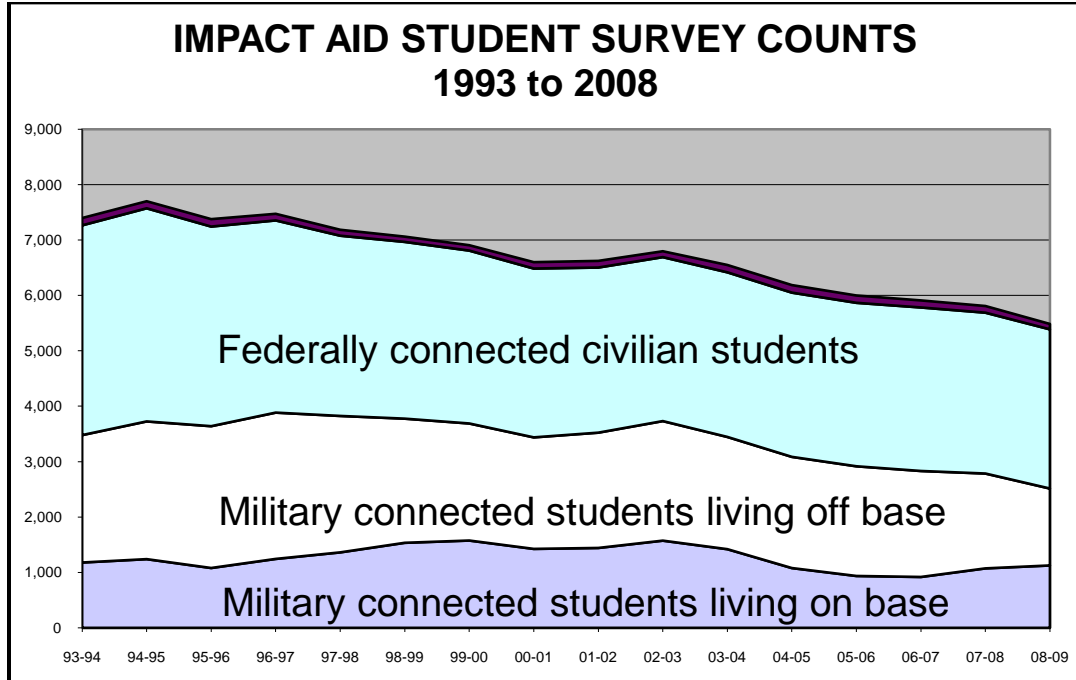


Levy rates are moving into an adjustment period as the District's assessed value tax base begins to level. Assessed values in the District are projected to decrease in 2010. The levy rates for 2010 are estimated based on current available data.

Federal Impact Aid

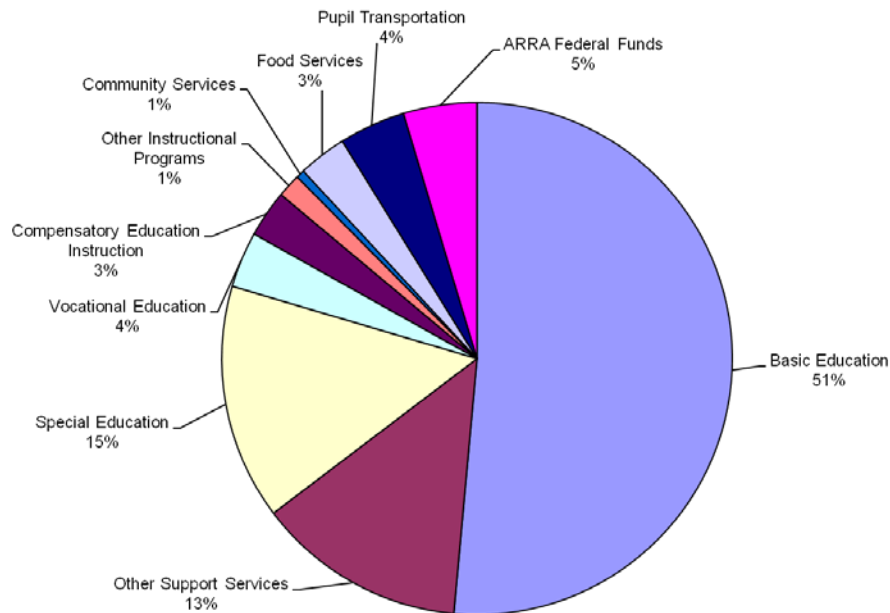


Federal Impact Aid revenue will increase slightly in 2010 to \$11 million. Even though enrollment is declining, off line housing credit will help to keep our allocation steady another year. The Federal Impact Aid payment for Fiscal Year 2010 is based on the survey data taken in the fall of 2007.

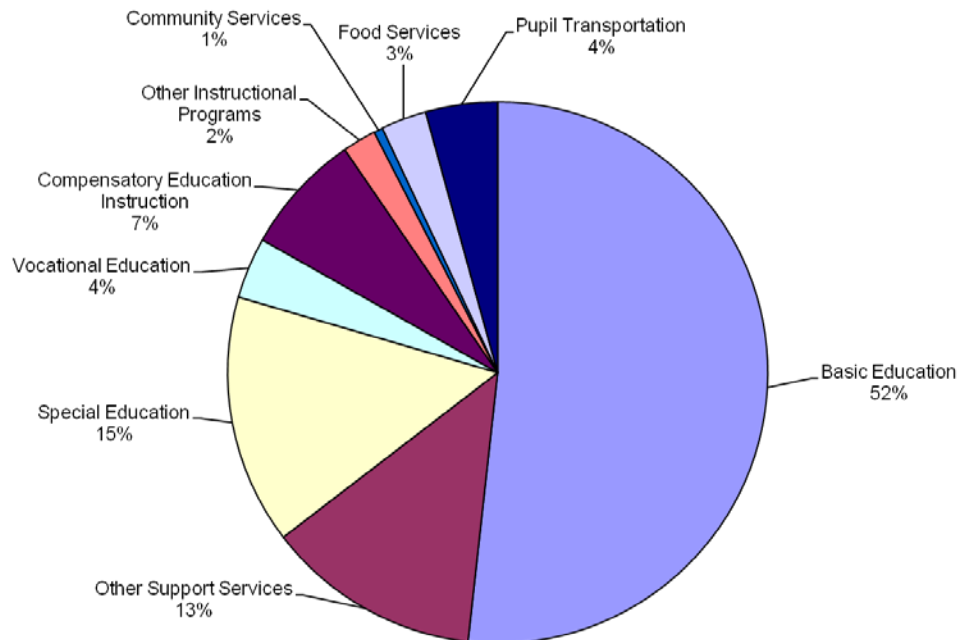


General Fund Expenditures

General Fund Expenditures by Program 2009-10



General Fund Expenditures by Program 2008-09



Although the percentage of expenditures remains stable, Compensatory Education Instruction decreased from 7% to 3%. ARRA Federal Funds include stimulus funding as well as state fiscal stabilization funding (SFSF). Federal Stimulus funding is allocated for two years while SFSF money is allocated for one year to offset state reductions that would have occurred to balance the state budget.

Capital Projects Fund Summary

The Facilities Infrastructure Review Committee (FIRC) completed their work in February of 2009 and provided updated infrastructure needs of the District. Many buildings are in significant need of systems replacements or renovations. The current total cost of the backlog of corrections and repairs is \$113 million dollars.

The District has not had a successful Capital Projects bond or levy election since 1992. With no local source of tax revenue for the Capital Projects Fund, the District has had to rely almost entirely on Federal Impact Aid to fund major facilities renovations and maintenance projects. In June of 2009, \$2.1 million dollars was deposited from Federal Heavy Impact Aid into the Capital Projects Budget.

The Capital Projects budget for 2009-10 includes \$793,408 from Federal Stimulus Construction Funds. Five projects have been selected which provide critical and required repairs focused on ADA compliance and energy conservation. This 2009-10 Capital Projects budget has few other projects planned prior to a possible February 2010 Capital Projects Levy.

Energy conservation will continue to be a major focus area next year. The cost of energy continues to rise faster than inflation. The District has begun to implement Phase IV of the District energy plan which will focus on heating and ventilation systems in selected buildings in conjunction with energy performance contracts and grants.

Associated Student Body Fund Summary

The ASB Fund is financed by fees collected from students and non-students attending optional non-credit extracurricular events, donations, and fundraisers. By law, the School Board approves an ASB budget for each school. Accounting records are kept for each ASB. Disbursements are made with the approval of the ASB and School Board.¹ No major changes to the ASB budget are anticipated.

Transportation Vehicle Fund (TVF) Summary

The District's Transportation Vehicle Fund is used to account for the financing and purchase of new school buses. The cost of operating and maintaining school buses is accounted for in the District's General Fund.² The goal of the District's Bus Purchase Program is to receive full reimbursement from the state by replacing all of the District's fully depreciated buses. Currently the District has 92 buses and 5 of those are fully depreciated. Next year (2009-10), \$1,026,208 has been budgeted for the purchase of nine 78 passenger rear engine buses.

¹ Organization and Financing of Washington Public Schools, January 2007; Office of Superintendent of Public Instruction, p 109.

² Organization and Financing of Washington Public Schools, January 2007; Office of Superintendent of Public Instruction, p 107.

Debt Service Fund (DSF) Summary

When voters of Central Kitsap School District authorize a bond issue to finance capital projects, they also authorize the levy of property taxes to pay interest and repay the principal over the life of the bond. Prior to each tax collection year, District and Kitsap County officials determine the levy amount and tax rate needed for payments of principal and interest. Property taxes collected for this purpose are deposited with the Kitsap County Treasurer in the District's Debt Service Fund. Disbursements are made by the County Treasurer.³ Repayment of the District's outstanding bond principal is made once each year. Payment of interest to the District's bond holders is made twice each year.

As of September 1, 2009; the District's total outstanding bond debt will be \$22,420,000. On December 1, 2009, the County Treasurer will make a principal and interest payment of \$10,395,143.72. On June 1, 2010; an interest only payment of \$300,031.25 will be made. The District's total outstanding bond debt will be \$12,550,000 at the end of the 2009-10 School Year. The District's current bond debt is scheduled to be retired with a final principal and interest payment on December 1, 2011.

³ Organization and Financing of Washington Public Schools, January 2007; Office of Superintendent of Public Instruction, p 105.