

May 21, 2012

TO: School District Administrators

FROM: Ron Lankford, Deputy Commissioner, Financial and Administrative Services
Roger Dorson, Coordinator, School Financial and Administrative Services

RE: May Financial Information

2012-2013 BUDGET ESTIMATES

2012-13 Proposition C Sales Tax Payment Estimate

The Consensus Revenue Estimate of the projected Proposition C revenue for the 2012-13 fiscal year is \$760,000,000. The 2012-13 Proposition C Sales Tax payment will be paid on the 2011-12 weighted average daily attendance (WADA).

The lower than normal summer school that was experienced in 2010 held constant in 2011. With statewide ADA basically holding constant and the assumption that summer school will do the same, it is predicted that Proposition C Payment WADA will be in the vicinity of 901,000 in FY13. If the Consensus Revenue Estimate of \$760,000,000 were to be achieved, it would mean a WADA payment of approximately \$843.

Through April 30 Proposition C revenues are up 3.4% for the fiscal year. Should that trend hold the final two months the total collections would exceed \$730 million for the fiscal year. To achieve the Consensus Revenue Estimate would mean that the Proposition C growth for the current year would have to be maintained, and that in FY13 a growth rate of 3.4% would have to be achieved. The Department would recommend caution as districts make determination of budget estimates for Proposition C in FY13.

Below is trend data for Proposition C Payments since the inception of the current foundation formula.

| Year | Dollars Distributed | WADA | WADA Payment |
|---------|---------------------|--------------|--------------|
| 2006-07 | \$784,900,800.00 | 915,941.2936 | \$856.93 |
| 2007-08 | \$772,820,015.00 | 914,272.3027 | \$845.28 |
| 2008-09 | \$730,325,406.57 | 908,284.1060 | \$804.07 |
| 2009-10 | \$695,120,132.29 | 910,040.6792 | \$763.83 |
| 2010-11 | \$711,615,172.47 | 915,272.7157 | \$777.49 |

2012-13 Classroom Trust Fund Estimate

The 2012-13 Classroom Trust Fund payment is paid on the 2011-12 average daily attendance. The projected Classroom Trust Fund revenue as stated in the Governor’s recommendations for the 2012-13 budget is \$319,696,995. You will note, however, that the Classroom Trust Fund projection is significantly less than last year’s appropriation of \$366,112,409. This reduction is due to efforts to more accurately project the true gaming revenue expectation, rather continuing to approve an estimate that was based upon 2009 assumptions that were never realized as the result of removing the gaming loss limits. While the CTF appropriation was lowered the decrease was offset within the foundation formula appropriation.

This estimated revenue divided by an estimated 2011-12 average daily attendance of 842,000 yields approximately \$378 per ADA from the Classroom Trust Fund for the 2012-13 year.

As a reminder, Senate Bill 291 passed in the 2009 legislative session includes the following provision in Section 163.043.5:

For the 2010-2011 school year and for each subsequent year, all proceeds a school district receives from the classroom trust fund in excess of the amount the district received from the classroom trust fund in the 2009-2010 school year shall be placed to the credit of the district's teachers' and incidental funds.

OTHER INFORMATION

Fiscal Year 2012 Audit Process

The process for submitting and resolving school district audits is anticipated to become more automated beginning with the upcoming fiscal year 2012 audit cycle. DESE is currently working to enhance its IMACS monitoring system to include an audit component. The new system will automate several manual processes and provide a systematic, interactive approach to resolving audit findings.

The audit component is being designed so that districts and charters may upload electronic copies of their fiscal year 2012 audit, board minutes, and management letter directly into IMACS. Communication between DESE and district/charter personnel regarding the audit will be achieved using the IMACS system. Additional audit documentation may also be uploaded to the system.

To prepare for system implementation, districts and charters are advised to obtain an electronic copy of their completed fiscal year 2012 audits. More specific information regarding implementation of the new process will be shared as soon as it is available. Use of the system will be mandatory once it is made available to users. The audit submission deadline of December 31 is not expected to be affected by the implementation of the new process.

Fiscal Year 2012 Single Audits

Districts/charter schools that expend more than \$500,000 in federal funds in fiscal year 2012 must contract with an auditor to perform a Single Audit of the federal funds. In addition to satisfying the procurement requirements listed in the Missouri Financial Accounting Manual, auditors performing Single Audits must comply with the federal debarment and suspension regulations in 7 CFR Part 3017.510(b). Pursuant to 7 CFR Part 3017.110 (c) (2), auditors that have been suspended or debarred from doing business with the federal government are prohibited from performing Single Audits. Districts/charter schools may determine whether an auditor is suspended or debarred by accessing the website www.epls.gov and searching for the name of the auditor.

Districts that in past years may have expended less than \$500,000 of federal money may spend more than \$500,000 of federal money in the 2011-12 year because of the distribution of ARRA and Jobs Bill funds. When expenditures of federal money exceed \$500,000, the district's auditor is required to follow additional audit procedures in accordance with the Single Audit Act (Office of Management and Budget Circular A-133). Such additional required procedures may increase the cost of the audit.

2011-12 Audit Schedule of Selected Statistics

A copy of the 2011-12 Schedule of Selected Statistics that is to be included in the 2011-12 audit report will be available shortly on the web at <http://dese.mo.gov/divadm/finance/newadmin/ScheduleofSelectedStatistics.html>. The district should print and keep a copy as a reference when it reviews the 2011-12 audit report prior to submitting the audit report to DESE. The district is encouraged to compare the information the auditor reports on this Schedule to the data the district submitted through MOSIS, on Core Data, the Annual Secretary of the Board Report, or other reports and resolve any differences prior to submitting the audit report to School Finance.

2011-12 Annual Secretary of the Board Report (ASBR) Updates

Several changes have been made to the 2011-2012 ASBR. These updates are listed on the School Finance WEB page at <http://dese.mo.gov/divadm/finance>, click on "ASBR".

There will be additional reports that will need to be completed in Part III-B under separate links for reporting of the Basic Formula – Federal Budget Stabilization Fund Education – ARRA, Basic Formula – Federal Budget Stabilization Fund Government Services – ARRA and Jobs Bill Funds. These additional reports are necessary to for monitoring purposes and providing data to the federal government. The information on these reports will be manually entered by the school

districts based on the project codes that were used for their identification purposes. **The total expenditures will still be included in Part III-B as they have been reported in the past.**

Non-certificated Educators – Attendance Hours Adjustment

Attendance hours for any educator without a valid certificate will be disallowed for state aid payment purposes. State law requires all school district personnel who are responsible for working with students in an instructional or supervisory capacity during the school day to have a valid Missouri teaching certificate. A substitute certificate meets the requirement of a certificate when the employee is functioning as a substitute teacher in the absence of the teacher of record or is employed as the teacher of record.

A report is available on the Data Collection web application system which will identify educators within the district that do not have a valid certificate on file with DESE. This report can be accessed in either of the following ways:

- A report is available on the Data Collection web application system which will identify educators within the district that do not have a valid certificate on file with DESE. To access this report in the Data Collection system, on the left navigation pane, select Reports, select Special Reports, then Staff Assignment Report. Under Special Report, select No Certification-Teacher, scroll down and select Selected Assignments Only, and then Run Report. The report can be run for all buildings or individual buildings and can be sorted by last name or by school code; or
- To access a report identifying those non-Certificated educators, log into web applications and select Educator Qualifications under the Cross Divisional heading, then select report menu, then select Staff Assignment Report. When the report selection options are available select No Certification – Teacher under the Special Report Heading and select Selected Assignments Only at the top of the selection criteria. After these selections are made select the run report option on the bottom of the screen.

At the end of the 2011-12 year, DESE will prepare a list of educators meeting the following criteria:

1. did not hold a valid Missouri educator certificate at any point in time between July 1, 2011 and July 1, 2012; or
2. has a certificate pending but did not initiate the required background check prior to June 30, 2012.

School districts must then exclude the 2011-12 hours of attendance for all students who were under the supervision of those educators since they did not have a valid certificate.

Attendance Reporting

For guidance regarding various attendance reporting scenarios please refer to the School Finance website at:

<http://dese.mo.gov/divadm/finance/topicsandprocedures/documents/AAttendanceReporting.pdf>.

SCHOOL GOVERNANCE

Missouri School Facilities Workshops - Summer 2012

The information on the Missouri School Facilities Workshops to be held this summer is now available. The workshops provide an outstanding opportunity for the district's school facilities director/support staff to receive a quality in-service program. There are no registration fees for the workshops. The pre-enrollment form should be completed and returned by mail or faxed to the appropriate workshop coordinator. Please distribute the information to the appropriate staff members in your district. The workshop information is available on the web at:

http://www.dese.mo.gov/divcareered/Missouri_School_Facilities_Workshops.htm.

Transfer Timing Amendments to Existing Direct Deposit Agreements

During 1995, the Missouri Health and Educational Facilities Authority (MOHEFA) was charged with developing guidelines for and the administration of the Direct Deposit Program, which provides strong credit ratings for Missouri school districts. Since the inception of this arrangement school districts have not been required to obtain individual bond ratings prior to the issuance of General Obligation Bonds but rather have been able to enjoy the benefit of utilizing the bond rating for the State of Missouri resulting in the reduction of front end issuance costs to school districts. In addition, long term savings have been achieved by this arrangement resulting in an approximate twenty-five basis points reduction below what would have been market. It has been estimated that since the initiation of this Direct Deposit Program that total savings to Missouri schools has exceeded \$200 million.

While this program has been of tremendous benefit to school districts, the rapid change in the economic climate was becoming problematic for some school districts, especially those who rely more heavily on local property tax revenues. The original agreement called for bond payment amounts to be withheld from state payments during the months of March through December with no withholding during January and February. Since some district balances are at their lowest levels during the ending month of each calendar year cash flow issues began to arise.

Instead of 10 monthly transfers occurring in March through December it is now possible to skip either October/November or November/December and push the final 2 month transfers into January and February. This flexibility could ease cash flow issues for districts and possibly eliminate the need for some districts to borrow funds until local tax revenue is received.

If this is something that is of interest to your district please contact Roger Dorson, MOHELA, or your district’s bonding advisor for more information about the process.

SCHOOL TRANSPORTATION

2011-12 State Transportation Aid Calculation

The fiscal year 2011-12 state transportation aid calculation is available through the School Finance website. Select Monthly Financial Reports. Input County-District number. The Payment Transmittal is then displayed. Click on the revenue name “Transportation” on the Payment Transmittal to access the transportation aid calculation. The link to School Finance Monthly Financial Reports is <http://dese.mo.gov/divadm/finance/FinancialRpt.html>.

This is the ninth live state transportation calculation made for the current year. The calculation is based on 2011-12 school year data submitted by the district on the state transportation aid documents included in Part IV of the Annual Secretary of the Board Report (Application for State Transportation Aid, School Bus and Facility Depreciation Schedules).

The percent of reduction to the calculated entitlement computed for the May 2012 calculation is shown below. This reduction percentage represents the amount the entitlement exceeded the appropriation and will fluctuate from month to month as revisions are made to individual school district data. The percent of reduction and the A and B factors are also reflected on each district’s Summary Transportation Report.

The percentage reduction and the A and B factors are as follows:

| | | | |
|----------|-------------------------|-----------------|-----------------|
| | <u>Reduction Factor</u> | <u>A Factor</u> | <u>B Factor</u> |
| May 2012 | 60.383658 | 3.233440 | -1.425313 |

Certified School Bus Driver Instructors

A current listing of the certified school bus driver instructors is available on the School Transportation website at <http://dese.mo.gov/divadm/trans/BusDrivers.htm>. This listing includes an expiration date for each instructor’s certification. If you discover that an employee needs to be recertified this summer, registration forms are also available on this same website for the summer certified school bus driver instructor workshops.

Who must have a School Bus (S) Endorsement?

State statutes require drivers of any vehicle (including a personal vehicle) who are being compensated for transporting students to/from ANY school event/program to have an “S” endorsement on their license.

District employees (i.e., teachers, coaches, administrators, secretaries, school nurses, janitors, etc.) who transport students as an “incident” to employment (i.e., student illness, etc.), are required only to have a valid Class F operator’s license.

District employees who are hired knowing they will be transporting school children as part of their job (i.e., regularly scheduled field trips, school sponsored activities, etc.) must have a Class E (for hire) license with a school bus (S) endorsement. Vehicles must weigh less than 26,001 lbs. and be capable of transporting 15 or less including the driver.

In addition, parents or individuals who enter into a contract with the district to transport students in a district owned/district leased vehicle and who are paid a lump sum amount, an hourly wage, or more than the AAA cost per mile

must have a Class E license with an S endorsement. These parents or individuals must agree to provide transportation in a safe, inspected, insured, licensed vehicle.

Note: Any vehicle that is capable of transporting 11 or more including the driver must be a yellow school bus that complies with Missouri Minimum Standards for School Buses.

Minimum Standards for School Buses Rulemaking Process

At the State Board of Education's April meeting Rule 5 CSR 30-261-025, Minimum Requirements for School Bus and Chassis and Body was approved with proposed changes to the Minimum Standards for School Buses including changes to the emergency door labeling; school identification lettering/logos; inside height to exclude air conditioning equipment; transmission parking pawl/interlock brake system; no standees on lifts; and the allowance for a second handrail on special equipped school buses.

This rule will be published in the Missouri Register with a 30 day comment period beginning June 1, 2012, and continuing until July 1, 2012.

Deputy Commissioner's Comments

Below is the most current revenue data for Missouri at this point of the fiscal year. While the net revenue is not robust, it does now appear to be in line with the consensus estimate upon which the FY12 state budget was developed. Hopefully the trend will remain steady over the final two months of the fiscal year.

Revenue Trends YTD

| | YTD as of <u>April FY11</u> | YTD as of <u>April FY12</u> | Revenue <u>Change</u> | % <u>Change</u> |
|----------------------------|--------------------------------|--------------------------------|--------------------------|--------------------|
| Individual Income Taxes | \$4,740,000,000 | \$4,870,000,000 | \$130,000,000 | 2.74% |
| Sales & Use Taxes | \$1,470,000,000 | \$1,520,000,000 | \$50,000,000 | 3.40% |
| Corporate Inc. & Franchise | \$421,500,000 | \$394,900,000 | (\$26,600,000) | -6.31% |
| Other Collections | \$372,900,000 | \$298,300,000 | (\$74,600,000) | -20.01% |
| Increase in Revenue YTD | | | \$78,800,000 | 01.13% |
| | | | Refund <u>Change</u> | |
| Refunds (YTD) | \$1,190,000,000 | \$1,100,000,000 | (\$90,000,000) | -7.56% |
| Net Revenue Status YTD | \$5,814,400,000 | \$5,983,200,000 | \$168,800,000 | 2.90% |

(A decrease in refunds enhances Net Revenue. An increase in refunds diminishes Net Revenue.)

Gaming Revenue YTD

| | <u>Prior Year</u> | Current Year | % Change |
|--|-------------------|---------------|----------|
| Total Gaming Proceeds to Education | \$283,533,885 | \$284,730,305 | -00.04% |
| Gaming Revenue Appropriated | | \$354,500,000 | |
| Percentage of Budget Year Reflected YTD | | 83.33% | |
| Percentage of Appropriation Realized YTD | | 79.98% | |

FY12 Supplemental Appropriation: As you may recall the June payment last year was reduced by \$6,759,407 due to a shortage in Gaming Revenue. As the result the Classroom Trust Fund monies failed to meet the level estimated. The FY12 Supplemental Budget that was recently approved should keep this situation from occurring this year.

The actual FY12 Classroom Trust Fund total will not be known until the June payment. It is again anticipated that available dollars will not meet budget estimates. The Department will distribute to the CTF all the funds that are available

on payment date. The formula payment will be increased by the amount the CTF is short which would preclude a final withholding similar to what occurred last year. I appreciate the work done by Linda Luebbering and the State Budget Office staff relative to this issue.

NCLB Waiver Status/Supplemental Services Agreements: The Department continues to respond to questions from the U. S. Department of Education related to the waiver request that was submitted a few weeks ago. This uncertain status of the waiver request does have implications on many districts that are currently engaged with vendors that provide various required supplemental educational services (SES). If the waiver is approved, a large number of districts would no longer fall under this requirement.

With the current year winding down, and planning for the next year underway, there is a high level of concern due to the uncertainty of final approval of the waiver request. The Department was recently asked what should be done about continuing with the SES contracts they have had in the past. There is legitimate concern that if contracts are not renewed, and the waiver request is not approved, districts would be placed in a precarious position. On the other hand, if contracts are renewed, and the waiver gets approved, districts would be required to honor the contracts.

It is suggested that consideration be given to discussing with their vendors the inclusion of stipulations that any agreements, or contracts, be contingent upon the following:

- Availability of federal funding
- DESE's receipt of the NCLB waiver and the impact on the approval upon the district

This is only a recommendation, and districts should consult with legal counsel prior to considering these options.

Reflections: By the time this memo arrives many school districts will have already concluded the 2011-12 School Year. It is hard to believe another year has come and gone. Though the challenges remain difficult, our responsibilities are no less. In the end, our mission is to serve the approximate 900,000 school age children engaged in our public school programs. Truly the goal of universal access to education has been the beacon of hope for the citizens of our country since its inception. The work you do is important. Thank you for all you do on behalf of the students you serve.



Ronald Lankford