

School City of Hammond
Fiscal Indicators and Discussion of Cash flow Reports
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The request from the Board of School Trustees was to have a third party (MTW Consulting) review the presentation of cash flow reports and to discuss the concerns regarding the School Corporation's potential for being placed on the "Watch List" by the DUAB (Distressed Unit Appeals Board).

Reports received for review included 2018 Appropriations, Revenue and Fund as well as the Cash Flow Reports for each fund.

The Cash Flow spreadsheets accurately reflected the fund balances through the end of September with estimated revenues and expenditures for October through December 2018. It is helpful to display the exceptions to a level monthly expenditure total (3-pay months, inter fund loans...). It is recommended that the reports also provide the initial approved revenues and appropriations that are furnished by the Department of Local Government Officials (DLGF) in the 2018 review of the 1782. The 1782 is a report issued by the DLGF after their review of the final budget for each year. Adding this column to the left of the January column will provide additional transparency for the Board and the public regarding any single monthly summary relative to the initially approved budget.

A review of the year-end cash balances for 2013 through 2017 is attached to this report. Also shown is a list, by fund, of the lost revenue due to the Circuit Breakers for 2018. The negative balances for the General Fund and the Capital Projects Fund will present an issue during the next audit. However, the recently approved Referendum is being used to offset the negative balance for the General Fund.

The October 25, 2018 directive to Theo Boone will improve the final cash balance for 2018 by transferring staff expenses for 20 (later reported to be 38) staff positions from the General fund to the Referendum Operating fund and the delaying of utility payments. Given that the Referendum fund will have an expiration date, the transfer of expenditures, while helpful now, will need to be reflected in reductions of operating costs. Delaying of utility payments does resolve the immediate cash balance problem, but, that delay does not resolve the over expenditure issue.

Cash balances for future years will also be impacted by the continued declining enrollment. Enrollment (ADM) is the primary number used for State Tuition Support. A summary of enrollment for the current year and the five prior years was used to predict the enrollment for the next 7 years using the cohort survival method. The chart is attached to this report. In addition to the enrollment numbers, state support per pupil is shown below the forecast data. A projection of future years loss of state support due to declining enrollments has also been included. For the 2019-1020 year, using current levels of state support, Hammond Schools will have a reduction of \$1,859,673, due to the anticipated declining enrollment. Even with a new funding formula for the next biennium, declining revenue will cause the need for reductions of staff. According to the DOE Form 9 reports for 2017, Hammond Schools expended 89.71% of the General fund on wages and benefits. The state average for 2017 was 86.28%; which would further indicate the need to reduce expenses in those areas.

The passage of HB 1009 will dramatically change the fund accounting for 2018. The change from the General Fund to the Education Fund will remove central administration, maintenance, custodian and utility expenses from the General Fund and place those expenses in the Operations Fund. While that will help separate education and operation expenditures, it does not resolve the cash balance issues since a portion of the State Tuition Support revenue will also be transferred to the Operations Fund. The true help for cash balances comes from the ability to view operations as one combined fund capturing the Transportation, Bus Replacement and Capital Projects Funds. This will allow the cash where positive balances exist to offset much of the negative balances.

DUAB Fiscal Health Indicators

Attached to this report is a summary of the recommendations of the DUAM Committee showing the lists of Fiscal Indicators and Qualitative Indicators that will be used to determining which schools will be placed on the "Watch List". This determination will be made by June 30, 2019 according to the last release of

information from the DUAB. Following the DUAB Summary is a page titled “2018-HEA 1315” that was provided by the Indiana Education Employment Relations Board (IEERB). IEERB officials prepared the list to help evaluate teacher contracts for deficit finance determinations. Contracts determined to be causing deficit finance can be voided by IEERB. The eight bullet points from the IEERB summary should be reviewed by the Hammond Schools since all of them would indicate the very real potential for the School city of Hammond to be included on the “Watch List” based on current data, However, corrections can be made to avoid placement on the list. One suggestion would be to form a Reductions Task Force of staff, administration and community members to make reductions that would improve the current financial standing. With five elementary schools having enrollment under 500 (2017-18 DOE data), there is a very real need to consider school closures or consolidation of enrollments. Facility evaluations should be done as a part of the proposed study to determine operating costs of each facility to assist in deciding which building might need closing. Staff and operations expense reductions must be made to correct the current financial direction.

This report did not evaluate facilities for capacity or condition, so that will need review in the proposed study.

Immediate Action is recommended prior to June 30, 2019.

ATTACHMENTS:

Cash Balance and Circuit breaker Data

Enrollment Forecast

DUAB Assessment Process Summary

2018-HEA 1315 – IEERB Summary of Fiscal Health Indicators

School City of Hammond

December 31 Cash Balance History

Source - DOE Form 9 for each calendar year

	2013	2014	2015	2016	2017
General	6,496,450	6,501,268	2,350,155	2,372,097	-1,355,885
Debt	1,276,914	543,015	252,095	520,814	413,314
Exempt Debt	6,086,234	4,659,405	2,362,556	4,806,628	2,033,030
Ex. Pension Debt	1,491	208,223	22,405	209,703	177,424
Cap Projects	-967,951	3,954	-1,534,741	2,929,975	-1,472,480
Transportation	364,625	47,821	30,546	2,109	875,053
Bus Repl	634,133	710,629	625,226	438,872	387,688

2018 Circuit Breaker Report

Amounts that will not be collected for the approved budget

Source- DLGF Files

General	0
Debt	3,740
Exempt Debt	19,845
Ex. Pension Debt	602
Cap Projects	1,780,148
Transportation	1,910,239
Bus Repl	49,879
Op Referendum	8,743
Total	3,773,196

School City of Hammond Enrollment Forecast

10/24/2018

5-yr avg
change

History **Forecast**

	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26
KDG	1075	1094	1024	968	947	892	870	840	810	780	750	720	700
1	1074	1086	1104	1052	984	923	900	878	848	818	788	758	728
2	1053	1092	1078	1088	1054	967	919	896	874	844	814	784	754
3	1094	1138	1181	1144	1106	1021	1012	964	941	919	889	859	829
4	1093	1101	1026	1086	1074	1076	961	952	904	881	859	829	799
5	1053	1081	1076	1073	1126	1045	1080	965	956	908	885	863	833
6	926	945	954	937	937	963	910	946	831	822	773	751	729
7	997	927	964	965	953	912	967	915	950	835	826	778	755
8	953	999	932	971	967	942	913	968	916	951	836	827	779
9	966	984	1055	978	994	957	971	942	998	945	980	865	856
10	884	981	985	1053	1007	958	958	973	944	999	946	982	867
11	947	890	924	930	1022	915	912	913	927	898	953	901	936
12	875	919	832	897	884	948	868	866	866	880	851	907	854
Total	12,990	13,237	13,135	13,142	13,055	12,519	12,243	12,017	11,764	11,480	11,152	10,823	10,418
ADM Funded	12,432.3	12,546.0	13,135.0	13,142.0	13,064.0	12,764.0 *							
Basic	4,569.00	4,587.00	4,967.00	5,088.00	5,273.00	5,352.00							
Complexity	2,220.53	2,318.27	1,684.84	1,629.00	1,390.83	1,390.83							
Total \$/ADM	6,789.53	6,905.27	6,651.84	6,717.00	6,663.83	6,742.83							

Based on 2018-19 Funding levels - dollars lost or gained for ADM Changes -1,859,673 -1,525,228 -1,708,633 -1,913,615 -2,211,648 -2,218,391 -2,726,800

* Spring forecast for 2018 ADM

The Following is from the October 4 Report of the DUAB Committee. While data for the Fiscal Indicators was not available at the time of this study, School City of Hammond should not be on the "WATCH List" based on my observations – this would depend on the weight the committee uses for debt and tax rates.

The Qualitative Indicators are almost all positive for the School City of Hammond, based on my observations during this brief, limited study. Personnel and Management items were not reviewed.

Recommendations for the Assessment Process

Throughout the Committee's meetings, the Committee evaluated nearly seventy (70) fiscal and qualitative indicators. In many cases, the Committee felt such indicators were important in the overall picture of the school corporation's fiscal health but that it would be necessary to work directly with the school corporation in order to understand the school corporation's unique circumstances. Qualitative indicators, in particular, require more knowledge of the school corporation's particular situation in order to gauge impact on fiscal health. To that end, on October 4, 2018, the Committee also voted to recommend the following fiscal and qualitative indicators that could be utilized by DUAB in the assessment process. These indicators would not be present on the Internet dashboard but could be evaluated and form a basis for conversations between the school corporation and the DUAB executive director.

Fiscal Indicators:

- Credit Ratings of the School Corporation
- Outstanding Debt including the Type of Debt and Review of Standardization Factors such as per ADM or per NAV
- Issuance of Judgment Bonds
- Debt Service Expenditures as Percent of Total Expenditures
- Overlapping Debt Burden from Surrounding Local Governments
- Taxing District Rates including Surrounding Local Governments
- Property Tax Collection Percentages
- Qualification for and Use of the Protected Taxes Waiver
- Assessed Value Analysis by Type of Property
- Population Projections

Qualitative Indicators:

- Financial
 - o Audit Findings
 - o Missed Debt Payments
 - o Missed Payroll
 - o Missed Vendor Payments
 - o Timing of Vendor Payments
 - o Use of Short-Term or Long-Term Financing for Cash Flow Purposes
 - o Budgeting and Management Practices of the School Corporation, including Accounting for Property Tax Caps and Collection Percentages
- Personnel
 - o Collective Bargaining Agreements and Long-Term Obligations
 - o Commitments Pertaining to Health Care and Other Employee Benefits
 - o Failure to Make Required Contributions
 - o Employees by Classification
- Capital
 - o Building Capacity and Utilization
 - o Age and Condition of Buildings
 - o Implementation of a Capital Asset Plan
 - o Deferred Maintenance on Buildings
- Management
 - o Academic Performance
 - o Adoption of Internal Control Policies
 - o Indiana Education Employment Relations Board Findings

- Practices and Policies of Superintendent and School Board in Monitoring Fiscal Health of the School Corporation
- Turnover in Key Administrative Positions

Proposed School Corporation Fiscal Indicators Page 4 For Review by the State Budget Committee

Environmental

- Class Sizes
- Ability to Pass a Referendum
- Presence of Other Educational Options in the Surrounding Community
- Multi-Family Housing
- Mobility of the Population
- Aging of the Population in the Surrounding Community

2018 – HEA 1315

- Established a fiscal and qualitative indicators committee to make determinations about the fiscal and qualitative factors to be used in analyzing the financial condition of school corporations.
- DUAB will use the indicators to do the following: (1) Identify school corporations that demonstrate signs of financial distress. (2) Determine when a corrective action plan is necessary for a school corporation. (3) Determine the conditions that must be satisfied before a school corporation will no longer be subject to a corrective action plan and will be considered as financially healthy.

Fiscal Health Indicators

- Average Daily Membership
- Fund Balances
- Annual Deficit/Surplus
- Fund Balance as Percent of Expenditures
- Tuition Support per ADM as compared to General Fund Expenditures per ADM
- Revenue by Type
- Operating Referendum Revenue as Percent of Total Revenue
- General Fund Salaries and Benefits as Percent of General Fund Expenditures

