

FARGO PUBLIC SCHOOLS

LONG-RANGE FINANCIAL PLAN

Investing in Educating and Empowering All Students to Succeed

2020

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Executive Summary

The Long-Range Financial Plan (LRFInP) provides a road map for the District's financial well-being and plan to achieve educational results by combining financial projections with financial strategizing. The LRFInP can be used as a tool to identify financial opportunities and obstructions while creating an avenue for discussion among the District's stakeholders. The LRFInP clarifies the District's financial strategic intent and imposes discipline on decision makers to consider the long-term effects of decisions made today.

A multi-year financial plan projects revenues and expenditures into the future. Unlike a multi-year budget, it does not authorize expenditures, but illustrates what may happen to the District's ability to pay for and provide services, given a set of economic assumptions. These projections help assess revenue trends, expenditure commitments, financial risks and the affordability of additional services and capital investments.

Understanding Financial Projections

Projections are an important element of the financial review and planning process. As part of the process of developing a forecast, an underlying set of assumptions must be developed and applied to the information as each year is projected. These assumptions will not all hold true for the entire term of the forecast, and will be adjusted annually, or at such times as new information changes the assumptions.

Projections utilize both historical, current and future data. As the District looks forward, there are several major factors that will need to be considered in both short- and long-term financial planning. They include:

- Implementation of the Long-Range Facility Plan (LRFP) and its operational implications. This plan includes the construction and operation of a Setting D Program, renovations to accommodate growth of the Early Childhood Special Education program, renovations to provide secure entrances, and construction and operation of a fourth middle school which will initially serve as an 8th/9th grade center.
- Special education, English Learners (EL), workforce readiness, language immersion, and other emerging educational needs will require additional financial resources.
- Offering competitive wages and employee benefit packages to attract and retain highly qualified employees.
- Legislation from the 2009 session will require the District to hold an election to continue the current mill levy at a level above the state mill levy cap. This election will need to occur prior to the 2027 tax year.

Careful planning and prioritizing will be necessary to maintain financial stability and a fund balance that provides the resources to cash flow operations without the need for borrowing funds to finance those operations.

THE INS AND OUTS



Money In

Most K-12 funding in North Dakota comes from State Aid.

The next largest source for the District is from local taxpayers.

Rounding out funding is federal grant revenue and other sources such as tuition and rental income.



Money Out

Most outflows are for instructional purposes including teacher and paraprofessional staff, supplies, equipment and instructional support.

Operational expenditures include facilities costs, transportation and central office services.

Administration is the smallest portion and consists of principal, school board and executive office expenditures.

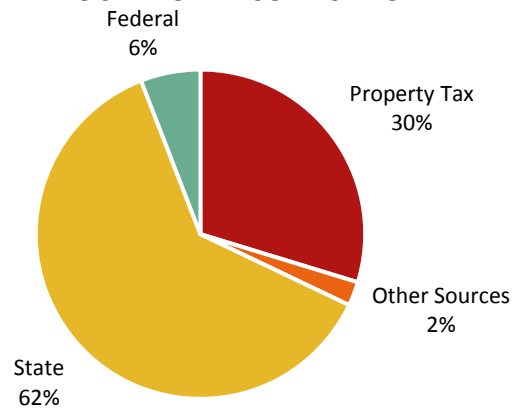
General Fund

Financial Overview

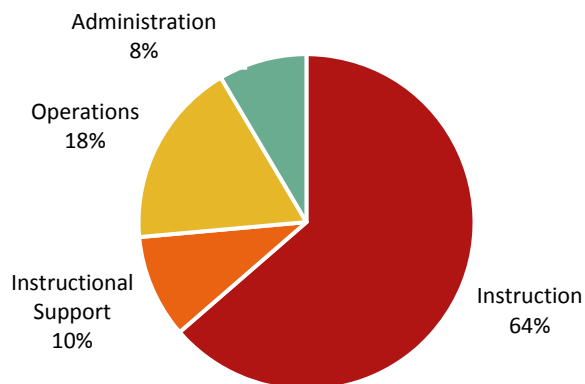
The Fargo Public School District has established a financial position that is fiscally sound. The general fund balance at June 30, 2019 was \$31,852,867 or 19.2% of budgeted expenditures for the year. As the District prepares for next year and beyond, appropriate planning must ensure the maintenance of the financial position that has been established for prosperity into the future.

The first step in financial planning is to understand where Fargo Public Schools funding is sourced and where it is spent.

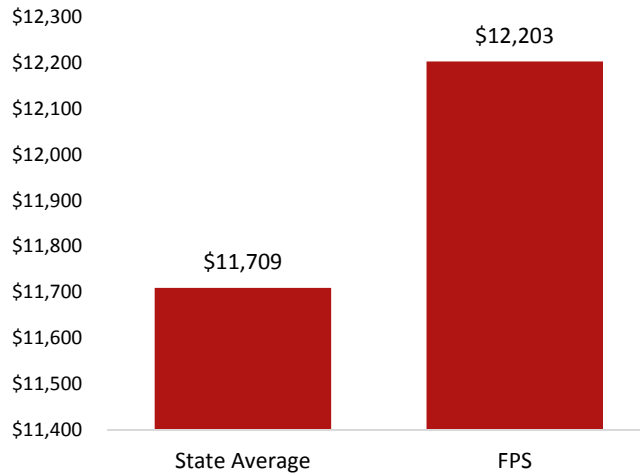
WHERE OUR MONEY COMES FROM



WHERE OUR MONEY GOES



Next, the District analyzes how spending compares to others within the state. Fargo Public Schools spends \$494 more per pupil than that state average cost.



These steps help to identify key areas that produce the largest impact on the District’s budget. Over the past five years, the District has experienced:



While expenditures continue to rise at a faster pace than revenues, tradeoffs are made each year to balance the budget, even though spending increases each year. The District expects expenditures to rise on average 3.01% per year balanced by a revenue growth of 2.59% based on assumptions contained in this document.

ENROLLMENT HIGHLIGHTS



Slow but steady growth



Students within the District take advantage of school choice options



Southern end of the District will continue to grow



Capacity will be exceeded at the following schools:

2023 Davies High School

2024 Discovery Middle School

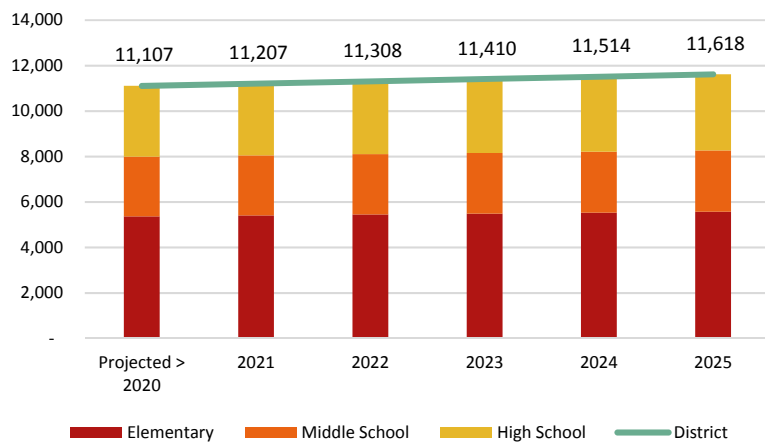
Enrollment Data

Enrollment in the Fargo School District peaked in 1999 at 11,785 students. Declining enrollment continued annually until 2009 followed by steady growth through 2018. Enrollment decreased slightly in 2019. Projections show slow increases in the coming years.

Housing development is expected to continue, especially in the southern end of the District, although the Red River Flood Diversion Project will impact the timing and surge of development in these areas. The City of Fargo is planning for future developments to include smaller, more affordable housing for residents in the area.

For purposes of this plan, enrollment is projected to increase approximately 100 students per year for the next five years.

PROJECTED ENROLLMENT



PER PUPIL FUNDING



Revenues

The District realizes a lower per pupil payment rate than legislatively approved due to a component in the funding formula called the mill levy deduct, which currently reduces state aid by the value of the first 60 mills levied.

Fiscal Year 2020

State
Per Pupil Payment Rate

\$9,839

Fargo Public Schools Realized
State Per Pupil Payment Rate

\$7,836

Revenues

Financial planning is impacted by many factors each year. On the revenue side changes in taxable valuation, interest rates, state support, federal support and the accompanying mandates, and enrollment all impact revenue generation.

The District utilizes many resources in the development of revenue projections including legislatively approved funding, enrollment projections, federal and state education department information and city and county assessment offices.

As part of the process of developing a forecast, an underlying set of assumptions must be developed and applied to the information as each year is projected. These assumptions will not all hold true for the entire term of the forecast and will be adjusted annually, or when new information is provided requiring changes in the assumptions.

Revenue projections are based on the following assumptions:

- State foundation aid per pupil formula payment increases 2% per annum
- Weighted Average Daily Membership increases .75% each year
- The increase in taxable valuation is 4.50% in 2021 with a decrease of .05% each year thereafter
- No significant property will be removed from the tax rolls and other local tax sources will remain constant
- General Fund mills levied remain constant at 126.78 mills
- Tuition and state excess cost revenue will increase in 2022 with the opening of a program that offers Setting D services that will serve high-cost students from both within the District and outside of it
- Federal revenues decrease in 2022 as the Striving Readers grant is completed and remains constant thereafter

Revenue Resources

Revenue can be divided into local, state and federal sources. Local revenues are comprised of property taxes, interest income, tuition, and other fees assessed by the District for services provided to students and patrons. State sources include foundation aid, grants and other educational related funding. Federal funding is generally restricted in nature for specific programs.

Local Sources

Property Tax

The largest of the local sources is property tax. Levied against real property in the District, this tax is a function of the value of the taxable property in the District.

Interest Income

Interest income has increased in recent years and is a function the Federal Reserve's rate setting. The District anticipates interest income to remain stable although at the current time the Federal Reserve is anticipating cuts in the fall of 2019.

Tuition

This District continues to attract students from other districts with placements primarily in special education programs.

State Sources

Foundation Aid

The primary state revenue source is the foundation aid program. The major components to this formula are the per pupil payment, the weighting factors, and the mill levy deduct.

Other State Aid

Other state aid is received for career and technical education, special education excess costs, state child placement and specific grant opportunities.

Federal Sources

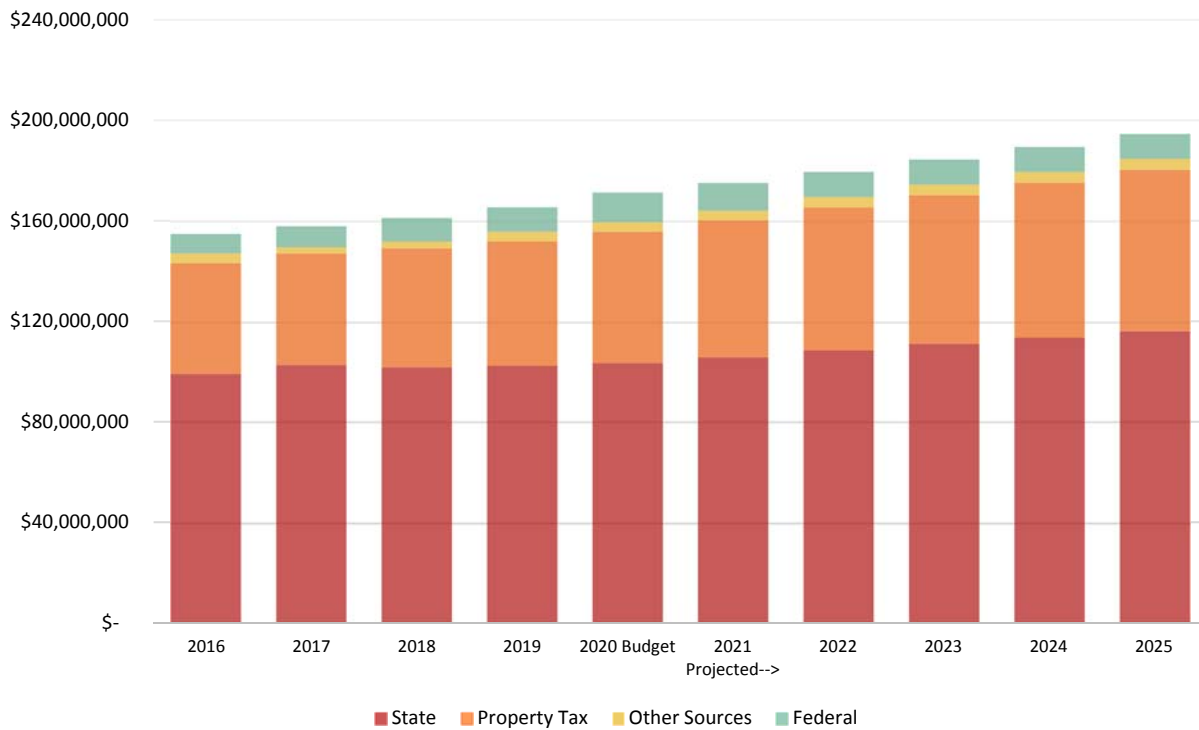
Federal revenue, received by the District for specific programs, is generally a restricted revenue source. Federal funding continues to make up about 6.0% of total revenues. Federal budget projections do not predict an increase in dollars for education.

Revenue Summary

Based on the revenue assumptions previously discussed, the projections for the District’s revenue into the future depict a slowly increasing trend as follows:

	2020 Budget	2021 Projected-->	2022	2023	2024	2025
State	\$103,698,544	\$106,128,407	\$108,803,654	\$111,311,805	\$113,883,648	\$116,521,512
Property Tax	52,070,500	54,206,962	56,520,159	58,909,146	61,374,906	63,918,352
Other Sources	3,805,739	3,805,739	4,205,739	4,225,739	4,246,739	4,268,789
Federal	11,795,981	11,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Total Revenues	\$171,370,764	\$175,141,107	\$179,529,552	\$184,446,690	\$189,505,294	\$194,708,653

REVENUE BREAKDOWN PER YEAR



EXPENDITURE HIGHLIGHTS

Over the Past 5 Years



Salary costs increased on average 3.74%



\$6.5M infused into technology for students and staff

Annually



\$11.3M to fund employee retirement plans



\$6M to transport students

Expenditures

This District, like most school districts, spends most of its resources on salary and benefits for staff. Fargo Public Schools spends 80% of the General Fund budget on personnel costs.

Expenditure projections are based on the following assumptions:

- Salary and benefits costs based on salary increase a total of 3.0% per year
- Personnel increases include the cost of additional personnel for the opening of a Setting D Program in 2022 and a new middle school to serve as an 8th/9th grade center in 2024
- As historical increases in employee insurance costs have been used to determine future increases, the impact of future health care reform is not included in the assumption
- Employer contributions to the Teachers Fund for Retirement and the Public Employees Retirement System remain constant at 12.75% and 8.62%, respectively. Legislatively this could change in the future
- Purchased services, including student transportation costs, increase 3% per year
- Utilities, supplies, textbooks and equipment increase 1% per year
- Additional square footage will require added resources to operate and maintain
- The number of Fargo Public School students educated outside the District will remain constant
- Technology infusion and replacement will be reinstated to 2019 levels beginning in 2021

Expenditure Requirements

Expenditures can be broken down into the categorical areas of salary and benefits, purchased services, supplies, equipment and other costs.

Overall, expenditures in the District have increased from \$153,605,100 in 2016 to budgeted amount of \$171,647,100 in 2020, an average of 2.82% per year.

Salary & Benefits

Increases in salaries and benefits will make up most of the increase in operational costs going forward unless changes in staffing or the sharing of benefit costs between the employee and the employer change.

Personnel cost have increased from \$120,524,000 in 2016 to a budget of \$137,636,500 in 2020, an average of 3.38% per year.

Purchased Services

The District contracts for certain instructional programs with outside agencies with annual increases projected to be 3%. At the present time the District contracts for programs in welding, special needs services and visual arts.

The implementation of the LRFP will add operational costs for water & sewer, heat & electricity, snow removal, grounds care, equipment, insurance, and building maintenance.

In these assumptions, transportation will continue to be provided without fees with an annual inflator of 3% according to current contract terms. The assumption in this plan is that the number of routes required for the Setting D program and a new middle school will not be different than the number of routes required in 2020.

Supplies

Supplies are both instructional and operational in nature and include building level supply budgets, paper, copying, utilities and custodial expenditures. For purposes of forecasting, these costs are projected to increase 1% per year.

Equipment

Equipment costs include instructional, grounds and technology costs. The budget for 2020 includes a significant reduction in this area. For purposes of this projection, these costs will increase to their pre-2020 amounts in 2021 and remain constant thereafter.

Other Costs

Other costs include dues, fees and registrations and fund transfers. The largest of the fund transfer relates to the Student Activities Fund and is projected to increase at 3% annually. The General Fund has one debt payment remaining related to the Building Authority. This debt payment decreases from \$2,735,850 to \$300,350 in 2021 and is fully paid in 2024.

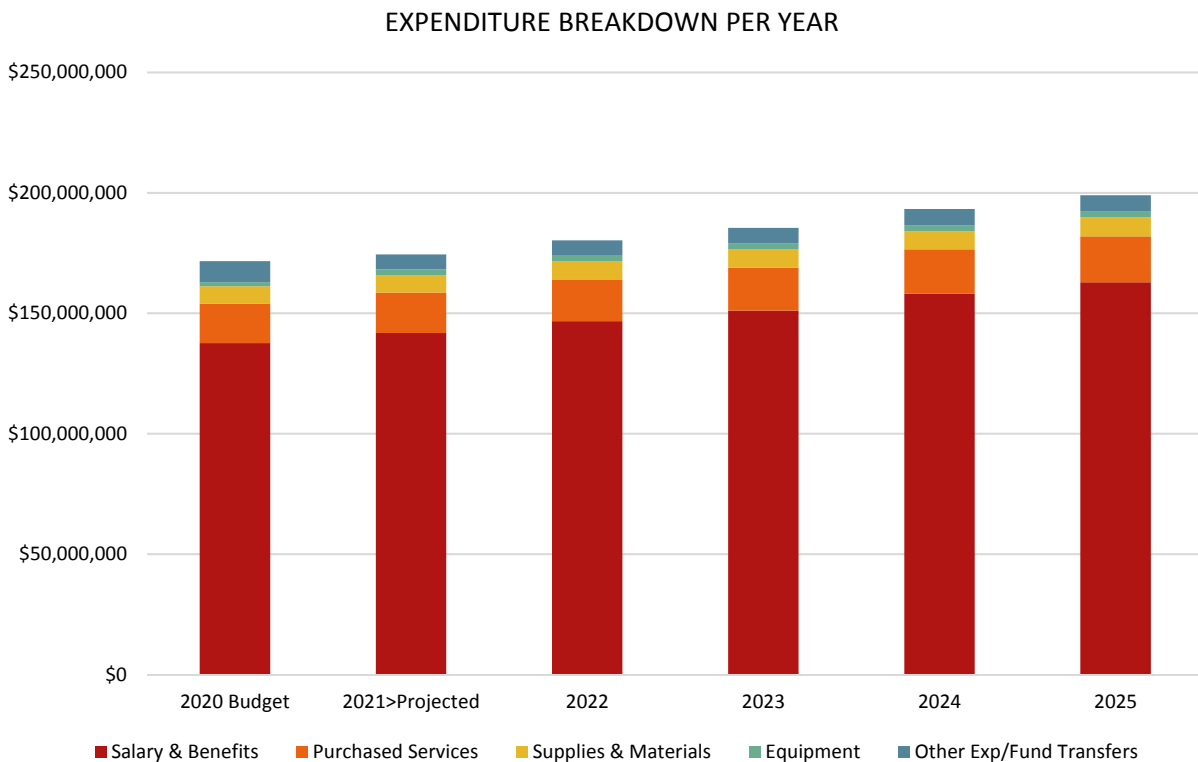
Future debt that may be required will be issued from the Building Fund.

Expenditure Summary

The strategic plan also identifies needs, both short term and long term, that will require consideration in future budget processes. Some of these needs have been identified while others will result from curriculum and instruction or operational discussions that are occurring at the present time and in the future.

With the assumptions projected, the General Fund expenses will increase as depicted below.

	<u>2020 Budget</u>	<u>2021>Projected</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Salary & Benefits	\$137,636,491	\$141,765,585	\$146,678,553	\$151,078,909	\$158,081,277	\$162,823,715
Purchased Services	16,369,200	16,860,276	17,386,085	17,907,667	18,444,897	19,083,244
Supplies & Materials	7,174,365	7,246,109	7,398,570	7,472,555	7,547,281	7,972,754
Equipment	1,727,361	2,377,361	2,416,135	2,440,296	2,464,699	2,509,346
Other Exp/Fund Transfers	8,739,690	6,183,955	6,362,474	6,544,348	6,731,679	6,629,629
Total Expenditures	\$171,647,107	\$174,433,287	\$180,241,816	\$185,443,776	\$193,269,832	\$199,018,688



A DECREASING FUND BALANCE?



Fund Balance

For school districts, a decreasing fund balance reduces the ability to generate additional revenues through investment income and pay for unexpected or emergency costs.

In addition, a decreasing fund balance adversely affects the District's credit rating which can then increase the costs to borrow money and issue debt for facility needs in the future.

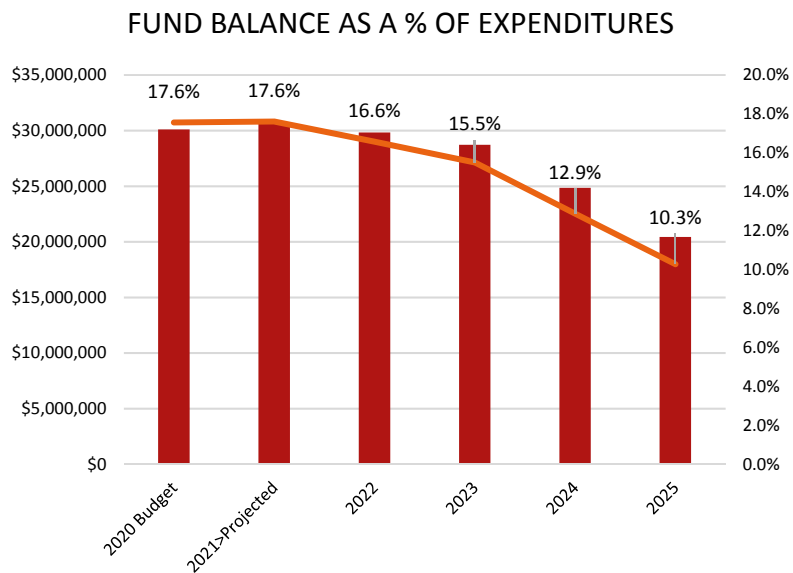
Fund Balance

Fargo Public Schools has established a financial position that is fiscally sound. The current fund balance at June 30, 2019 was \$31,852,867 or 19.3% of General Fund expenditures.

As the District prepares for the future, appropriate planning must ensure the maintenance of this financial position. According to District Executive Limitations, the fund balance must be maintained at a minimum of 15% of expected expenditures for the subsequent year.

Considering the revenue and expenditure projections based on the assumptions contained herein, the District will need to be cognizant of costs rising at a higher level than revenues available and seek to control variable costs. As salary and benefits comprise 80% of the expenditure budget, increases in these areas will need to be monitored closely and consideration given to such areas as class size or levying additional mills in order to maintain the financial position the District has worked to acquire.

The chart below depicts the effects of the assumptions in this document on the General Fund balance. In as soon as three years, the fund balance percentage could be below the Executive Limitations set:



THE INS AND OUTS



Money In

Funding for the Building Fund is acquired through local property tax levies and issuing debt.

Current Mills Available 26.35



Money Out

Expenditures are incurred for the construction or remodel of facilities and principal and interest payments on debt issued by the District.

Building Fund

Financial Overview

For purposes of this plan, the Building Fund consists of both the District's Building Fund and Special Levy Fund. The Special Assessments Fund allows the District to levy the amount necessary to pay for the costs of assessments and is not included in this projection.

Money in the building fund may be used for the construction, renovation, improvement, repair or expansion of District buildings, facilities and real property including the payment of principal and interest on bonds issued.

In order to carry out the District's facilities plan, debt will need to be issued to fund construction and/or renovation of buildings. The current LRFP calls for the renovation of an elementary school to provide Setting D services and a fourth middle school.

Projections include the following assumptions in conjunction with the LRFP:

- Mills levied remain constant at 26.35 mills
- The increase in taxable valuation is 4.5% in 2021 and decreases .05% each year thereafter
- Early Childhood Special Education space at Longfellow will be renovated to include appropriate bathroom facilities
- Cost to construct a Setting D facility is \$12M; paid through existing Building Fund balance and revenue sources
- Schools in need of secure entrances will be phased in
- Unused land on Davies property will be sold
- Cost to construct a middle school is \$55M: land related to the facility will be a swap with existing District-owned land; bonds will be issued
- Cost to construct an elementary school is \$18M; bonds will be issued
- Annual operational maintenance costs will be paid through the General Fund
- Other expenses include the costs to issue debt

Fund Capacity to Issue Debt

Fiscal Year	Mill Value	Levy Dollars Collected	Setting D	Middle School	Elementary School	Total Debt Service	Mill Levy Used	Remaining Mills	Remaining Capacity
			Existing Fund Balance(\$12M)	Series 2022 (\$49.145M)	Series 2023 (\$16.44M)				
2020	\$ 413,011	\$ 10,882,850				\$ 33,487,825			
2021	431,597	11,372,578				7,948,520	18.42	7.93	\$ 3,424,058
2022	450,803	11,878,658		\$ 3,859,133		11,811,403	26.20	0.15	67,255
2023	470,638	12,401,319		3,859,350		10,000,895	21.25	5.10	2,400,424
2024	491,111	12,940,776		3,861,100	\$ 702,200	11,073,382	22.55	3.80	1,867,394
2025	512,229	13,497,230		3,858,350	1,112,200	13,036,207	25.45	0.90	461,023
2026	533,999	14,070,862		3,861,100	1,276,700	13,561,507	25.40	0.95	509,355
2027	556,426	14,661,838		3,858,850	1,276,950	13,727,332	24.67	1.68	934,506
2028	579,518	15,270,304		3,856,600	1,275,700	12,550,169	21.66	4.69	2,720,135
2029	603,278	15,896,387		3,859,100	1,277,950	11,302,482	18.74	7.61	4,593,905
2030	627,711	16,540,190		3,860,850	1,278,450	11,296,207	18.00	8.35	5,243,983
2031	652,820	17,201,798		3,856,600	1,277,200	11,300,962	17.31	9.04	5,900,836
2032	678,606	17,881,269		3,857,400	1,274,200	11,290,792	16.64	9.71	6,590,477
2033	705,072	18,578,639		3,859,000	1,277,400	9,475,292	13.44	12.91	9,103,347
2034	732,217	19,293,916		3,856,200	1,274,200	7,126,342	9.73	16.62	12,167,574
2035	760,041	20,027,085		3,859,000	1,274,800	7,128,517	9.38	16.97	12,898,568
2036	788,543	20,778,101		3,857,000	1,279,000	6,800,075	8.62	17.73	13,978,026
2037	817,719	21,546,890		3,860,200	1,276,600	6,800,700	8.32	18.03	14,746,190
2038	847,566	22,333,352		3,858,200	1,277,800	6,187,000	7.30	19.05	16,146,352
2039	878,078	23,137,353		3,856,000	1,277,400	6,184,000	7.04	19.31	16,953,353
2040	909,250	23,958,729		3,858,400	1,275,400	5,133,800	5.65	20.70	18,824,929
2041	941,073	24,797,284			1,276,800	1,276,800	1.36	24.99	23,520,484
2042	973,540	25,652,790			1,276,400	1,276,400	1.31	25.04	24,376,390
2043	1,006,641	26,524,985			1,279,200	1,279,200	1.27	25.08	25,245,785
			\$ -	\$ 73,312,433	\$ 24,796,550	\$ 227,223,409			

Note: Series 2022 yields \$55M and Series 2023 yields \$18M with premium on sale

Financial Summary

	2020 Budget	2021> Projected	2022	2023	2024	2025
Revenues						
Property Tax	\$ 10,338,707	\$ 10,803,949	\$ 11,284,725	\$ 11,781,253	\$ 12,293,737	\$ 12,822,368
Other Sources*	298,600	250,000	250,000	250,000	250,000	250,000
Sale of Bonds	18,475,000		49,145,000		16,440,000	
Premium on Sale	745,000		5,855,000		1,560,000	
	\$ 29,857,307	\$ 11,053,949	\$ 66,534,725	\$ 12,031,253	\$ 30,543,737	\$ 13,072,368
Expenditures						
Current Projects:						
Discovery Remodel	2,311,000					
Clara Barton Entrance	1,652,000					
Lincoln Entrance	686,000					
Longfellow Entrance	1,190,000					
Future Projects:						
Setting D		10,000,000	2,000,000			
ECSE (Longfellow)		600,000				
Middle School			44,000,000	11,000,000		
Secure Entrance			1,000,000		1,000,000	
Elementary School					14,400,000	3,600,000
Other Expenses	206,000	50,000	300,000	50,000	300,000	50,000
Principal & Interest	33,487,825	7,948,520	11,811,403	10,000,895	11,073,382	13,036,207
	39,532,825	18,598,520	59,111,403	21,050,895	26,773,382	16,686,207
Revenues Over (Under) Expenditures	\$ (9,675,518)	\$ (7,544,571)	\$ 7,423,322	\$ (9,019,642)	\$ 3,770,355	\$ (3,613,839)
Fund Balance						
	\$22,318,014	\$ 12,642,496	\$ 5,097,926	\$ 12,521,248	\$ 3,501,606	\$ 7,271,961
						\$ 3,658,122

*Other sources will be adjusted to include the sale of land on the Davies property in the future

In summary, under the assumptions used in this projection, the District has the capacity in the Building Fund to issue debt, construct and renovate facilities in conjunction with the LRFP. Additional facility needs beyond these would most likely have to be approved by the taxpayers in the District.