

**Operations Work Group - October 22, 2018**  
2018-19 Tax Levy Certification and Fall Budget Adoption

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Background

On June 25, 2018 the Board voted on and approved the MMSD June Preliminary Budget. This budget is one to celebrate. The Board was able to make the largest investment in staff in over five years, while holding the tax rate stable for homeowners. We are honored to provide a budget that:

- Provides an average total compensation increase for employees of approximately 4.13%, including steps, lanes and a 2.13% base wage increase;
- Avoided all health care costs increases (3.85%) from being passed onto employees;
- Maintained class sizes well within the new Board policy;
- Continued investments in the District's priority areas, including Opportunity Youth, Community Schools, and Early College STEM Academy; and
- While not meeting the Board's goal of a \$2 million in revenue taxing authority under levy, the budget still maintains \$1.5 million of revenue taxing authority to protect flexibility and investments for future budget years.

For employees, these commitments bring us to a new level of professional pay for all employees. Today, we will review the updated October Original Budget, including closing any open items and actualizing any budget estimates from June, in preparation for Board vote on October 29<sup>th</sup>.

Part 1: 2019 Tax Levy

As shown in the table below, the June Preliminary Budget was supported by a tax levy of \$310,785,618, an increase of 4.57% over the prior year. Now, in the Fall Original 2018-19 Budget, we are recommending a total tax levy of \$307,799,893, which is an increase of 3.57% over the prior year but approximately \$3 million less than the June estimate.

The fall recommended levy is lower than the June estimate for two key reasons:

1. MMSD's actual general/equalization aid loss of -10% (published by DPI on October 15, 2018) was not as severe as the 13.5% aid loss anticipated in the June Preliminary Budget. This is primarily because our shared cost was lower than estimated. Final General Aid payment will be \$43,345,381.
2. The Department of Revenue gave us a substantial new aid, "State Aid for Exempt Personal Property," of \$1.6 million. While not totally unexpected, the size of the aid is much higher than anticipated. This is not new revenue; the aid can only be used to reduce the levy in Fund 10. It's essentially a tax rebate.

While neither of these changes provides any additional revenue to allow for additional spending, they decrease the June estimated mill rate from \$11.71 to \$11.06 and the expected impact on the average homeowner to decrease by \$18.

Together, these aids simply move the source of the already planned revenue from local property taxpayers back to the State.

<b>Tax Levy Year:</b>	<b>Amount:</b>	<b>% Change vs. Prior Yr</b>
2018 Tax Levy - Fall Actual	\$ 297,192,686	3.52%
2019 Tax Levy - June Preliminary Budget	\$ 310,785,618	4.57%
<b>2019 Tax Levy - Fall Recommended Amount</b>	<b>\$ 307,799,893</b>	<b>3.57%</b>

With the exception of a few planned and strategic one time investments from fund balance, this is a balanced budget for 2018-19. The impact of the recommended tax levy increase (3.57%) will be offset by a tax base which grew this year by \$2.2 billion, or 8.75%, to \$27.8 billion. The MMSD tax base growth is more than double our June estimate of 3.5% and double the State average of 4%. Based on the recommended levy, our mill rate will substantially decrease to \$11.06. Recognizing that the 8.75% is an average, there is a wide assessment impact amongst all of MMSD’s taxing jurisdictions (Madison approx. 9%, Fitchburg approx. 6%, and Shorewood Hills even slightly decreasing). Additionally, each home is assessed individually and can be well above, or below, the average Madison assessment. While, the median Madison home valued at \$273,000 is estimated to decrease by \$18, we recognize that there are those in our community who will see increases.

The table below shows recent results:

<b>Fall</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Tax Levy Increase:</b>	3.57%	3.52%	2.11%	4.71%	4.18%	3.38%	1.75%
<b>Tax Base Growth:</b>	8.75%	6.23%	3.51%	3.52%	3.47%	0.36%	-1.61%
<b>Eq. Mill Rate/\$1,000</b>	\$11.06	\$ 11.62	\$ 11.92	\$ 12.08	\$ 11.94	\$ 11.86	\$ 11.52

The recommended levy is the amount required to maintain the Board’s strategy - to ensure flexibility of revenue use for future budget years including investing in staff total compensation, support structural investments in safety and security, and support the efforts in the Strategic Framework moving forward. The June budget anticipated \$2 million in under levy for revenue limit authority; the October budget includes \$1.5 million in authority in under levy.

**Recommendation and Action Required:**

Per statute, the Board must adopt a tax levy by November 1. The Board is scheduled to vote on the tax levy at the October 29, 2018 regular meeting.

Our recommendation is for the Board to continue to minimize the tax levy impact this year, preserve the \$1.5 million in revenue authority, and protect the Board’s financial flexibility for future years in staffing, compensation and priority needs.

**Part 2: 2018-19 Fall Original Budget Adoption**

Each fall, the June Preliminary Budget is replaced by the Fall Original Budget. The Fall Budget captures the very latest information including MMSD’s actual September enrollment, the final staffing plan, many grant updates, and several other small budget adjustments.

The purpose of the Fall Original Budget adoption is to replace preliminary budget estimates with actual data. As of June, there were a few open items where information was not yet known. As a general rule, it is not intended for October to be a second round of budget developments; however, the following open items were foreshadowed in the June Preliminary Budget Book and have been accounted for in the October Original Budget.

Reconciliation of the open items:

- Safety & Security Funding (consent item voting to happen throughout the year): Based on the previous Board presentation and discussions in the June Budget Book, we have included \$5M in funding from Fund Balance for safety and security upgrades, 70% in Fund 41 and 30% in Fund 10. The Board will approve purchases out of this funding via consent and will be updated on progress throughout the year.
- TID #32 Revenue Recognition (Long Range Facility Plan vote in summer 2019): In the spring of 2019, the City of Madison will close TID #32, putting approximately \$500 million back onto the MMSD tax base next year. MMSD is expecting to receive approximately \$3.7 million this year as a result of that closure. The Administration hopes to use this one time funding to support the long range facility plan efforts in alternative education programming, moving toward owned versus leased spaces. The expenditure plan would go to the Board for consideration and approval this year.
- Federal E-Rate Subsidy (consent item voting to happen throughout the year): MMSD is eligible for approximately \$3.0 million of federal subsidy reimbursement for certain technology infrastructure investments over two years. In the October budget, we have planned for expenditures of \$1.9 million with corresponding revenue of \$1.57 million. This left approximately \$390,000 added as general fund technology expenditures on the levy for one-time expenses.
- HR System (consent item voting in October Regular BOE meeting): In 2017/18 school year, MMSD expected to purchase an HR System. The Board previously put \$75,000 in priority project money aside for this purchase. Unfortunately last spring, our HR System bids came in higher than expected. After research, we know we need to estimate for a higher cost to get what we need. Included in the October budget is an additional investment of \$181,000. These funds were added to the general fund expenditures with off-setting savings from October closing adjustments. This item is included in the October Regular Board Meeting in the consent agenda.
- Dohm Property/Acacia Ridge purchase (Final votes to happen in February Regular Board meeting): The Board has an offer to purchase vacant land on the far west side to hold for a future school site to accommodate the development in the developing Westside Neighborhood area. This development would otherwise cause local schools to be over crowded. Based on previous Board discussions, \$2.050 million of fund balance has been allocated to the purchase this land with potential Board approval in February 2019.

### Open Discussion Items

- Principal Pay proposal: At the June Regular Board meeting, the Board approved \$170,000 in recurring funding to fund a target adjustment in the principals' salary schedule to recognize larger and/or more complex school assignments. However, the Board asked for more information in the October Operation Work Group before we implemented this change. Please see attached memo for more details.
- Special Education IDEA Update: In June, the Board asked for an update on Special Education IDEA Flowthrough. This year for the first time, we pushed out almost the entire staffing allocation prior to the year starting, while also making necessary adjustments after school started. Due to this new process, for the first time we had 100% of all cross categorical teachers hired before school started. At this point in the year, our schools staffing levels have stabilized. Please see the attached memo for more details on our 2017/18 and 2018/19 staffing levels and adjustments.
- Long Term Subs: There was a recommendation out of the MTI Committee to increase the long term substitute teacher rate to Track 1, Level 6 (from \$185.16/day to \$201.45/day). This was removed from initial funding because the long term subs all received a 2.13% salary increase and those funds were needed to ensure across the board salary increases. If the Board would like to re-instate that funding it would cost approximately \$150,000.
- HR Employee Relations Specialist Senior: In the 2017/18 school year, the Board contemplated funding an HR Recruiter position to focus on diverse hiring. This position was not included in the budget at that time; however, we remain committed to our efforts to increase the diversity of our workforce and hope to have this position back in the budget in the future. If the Board would like to re-instate that funding, it would cost approximately \$95,000.

### In Summary:

The summary table (see attached file) compares the June Preliminary Budget to the current Fall Original Budget for 2018-19. Here are the highlights:

- The change in General Fund Revenues from June-to-Fall is 4.76%. The major change here is related to the TID #32 close, recognizing \$3,700,000 of revenue into General Fund Revenue.
- The change in General Fund Expenditures from June-to-Fall is 7.7%. The key moving items here are:
  - \$1.6 million of TID #25 maintenance/construction summer projects not completed or invoiced until after July 1, moving the TID revenue and expenditures into 2018/19.

- Actions taken for the Dohm property purchase, E-Rate program, and the HR System expenditures explained above.
  - As expected, the 2x charters had a significant impact on our expenditures. DPI charged MMSD approximately \$8,619 for 199.7 FTE students enrolled in the two 2x charters. While any new to MMSD students would also be in our enrollment numbers, they are only partially counted in a 1/3 average, while 100% of the expenditures are charged this year. The district's June estimated expenses were \$1.4 million; however, the actual expense is \$1.7 million. The additional \$300,000 is included in the budget funded through other October year-end adjustments. This number is estimated to increase next year as our current two schools continue to grow.
  - MMSD's Private School Voucher payments increased by 63% to \$905,000 this year. In the past, MMSD has not seen voucher impact as material; however, this will be a number to watch in the future.
- After the one time strategic draws of \$5 million in safety and security, \$2 million in potential Dohm property purchase, and the \$1.6 million in TID #25 carry over, coupled with incoming TID #32 revenue, fund balance is planned to be at \$47.2 million (12.7% of general fund expenditures) at the end of the year.
  - The Special Education fund shows an expenditure increase of 5.12% from June to Fall, primarily due to the across the board salary increases.
  - Other than those explained above, there are only minor changes in the Funds other than Funds 10 and 27.
  - The June-to-Fall adjustment to the tax levy is a decrease of \$3 million, to a tax levy of 3.57% and mill rate of \$11.06. This is estimated to reduce tax impact on the average Madison home by \$18.

**Action Required:**

The Board adopts a Fall 2018-19 budget in tandem with the tax levy. The Board is scheduled to vote on the tax levy and MMSD Fall 2018-19 budget at the October 29, 2018 regular meeting.