

HOW DISTRICTS SHOULD BE BUDGETING UNDER CURRENT CIRCUMSTANCES

PRESENTED BY
BONNIE GRANGER, ESQ., CPA
JIM YOUNG, ESQ.

YOUNG LAW GROUP

NEW ERA IN PUBLIC EDUCATION FUNDING

- Many of the items that districts are about to experience are similar to what we all experienced after Hurricane Katrina!
- We will be receiving a flood of one-time Federal money. At the same time, State and Local Funding will likely be significantly reduced due to the economic effects of the COVID-19 virus.
- Most federal funds have compliance requirements that must be strictly followed. Failure to comply with the requirements may result in questioned costs and the repayment of those funds with district monies.



THINGS WE KNOW

- MAEP is based on the value of 28 mills (or 27% of the MAEP calculated amount, whichever is lower) being contributed toward the formula. The ad valorem taxes on the casinos will likely be drastically affected since they have been closed since March 16. A large portion of the state budget is funded by state gaming revenues. This may affect the percentage of cuts that school districts take in the MAEP and other state funding.
- Federal funding in targeted grants/programs may vary in the coming months and years.



THINGS WE KNOW

- In order to receive FEMA funds to help pay for programs related to COVID-19 and all of the current tornado damage that recently hit the state, MS must put up matching funds. Normally, FEMA pays 75%, MEMA pays 12.5%, and the local government matches 12.5%. There will be millions needed to help stabilize hospitals. With the government not allowing elective procedures, hospitals are facing huge losses and layoffs.
- Gasoline taxes and sales tax have also taken a huge hit. The COVID-19 fueled shutdown around the world has choked the demand for oil, throwing the oil industry, which was already oversupplied before the pandemic, into chaos.

The above will affect the amount of attention that Education funding receives during the state legislative session.

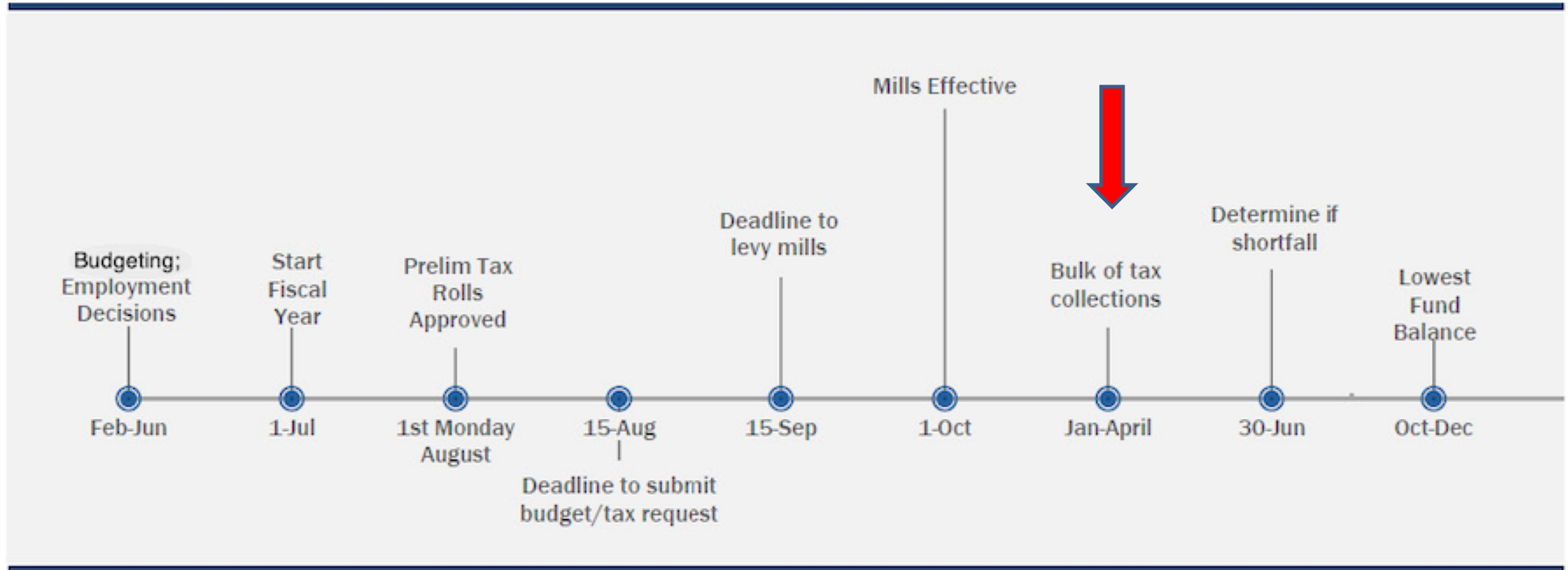


THINGS WE KNOW

- Assessed Valuation of business property (inventory and personal business property) could decrease due to businesses currently suffering losses. Affected businesses may not continue operations until the economy begins or reaches full recovery. This affects local ad valorem taxes that many districts rely on for local support. If a business closes down before March, personal property is not assessed – only real property is assessed. For businesses that do not close, tax assessors are not expecting a lot of change for FY 21 but if the COVID-19 situation continues, there could be a large drop for FY 22.



SAMPLE TAX CYCLE



WHY IS THIS IMPORTANT?

- Maximizing revenues in down years
- Projecting cashflow
- Preparing for shortfall
- 55 mil cap implications
- New property each year exempt from 55 mil cap
- Managing the mils
- Debt service
- Political considerations re 4% or 7% tax increase



55 MIL CAP EXCEPTIONS

- Debt service
- Decrease in the tax base
- If mils previously decreased, and increase becomes necessary due to emergency declared by Governor or President. May match mils in any of previous 10 years

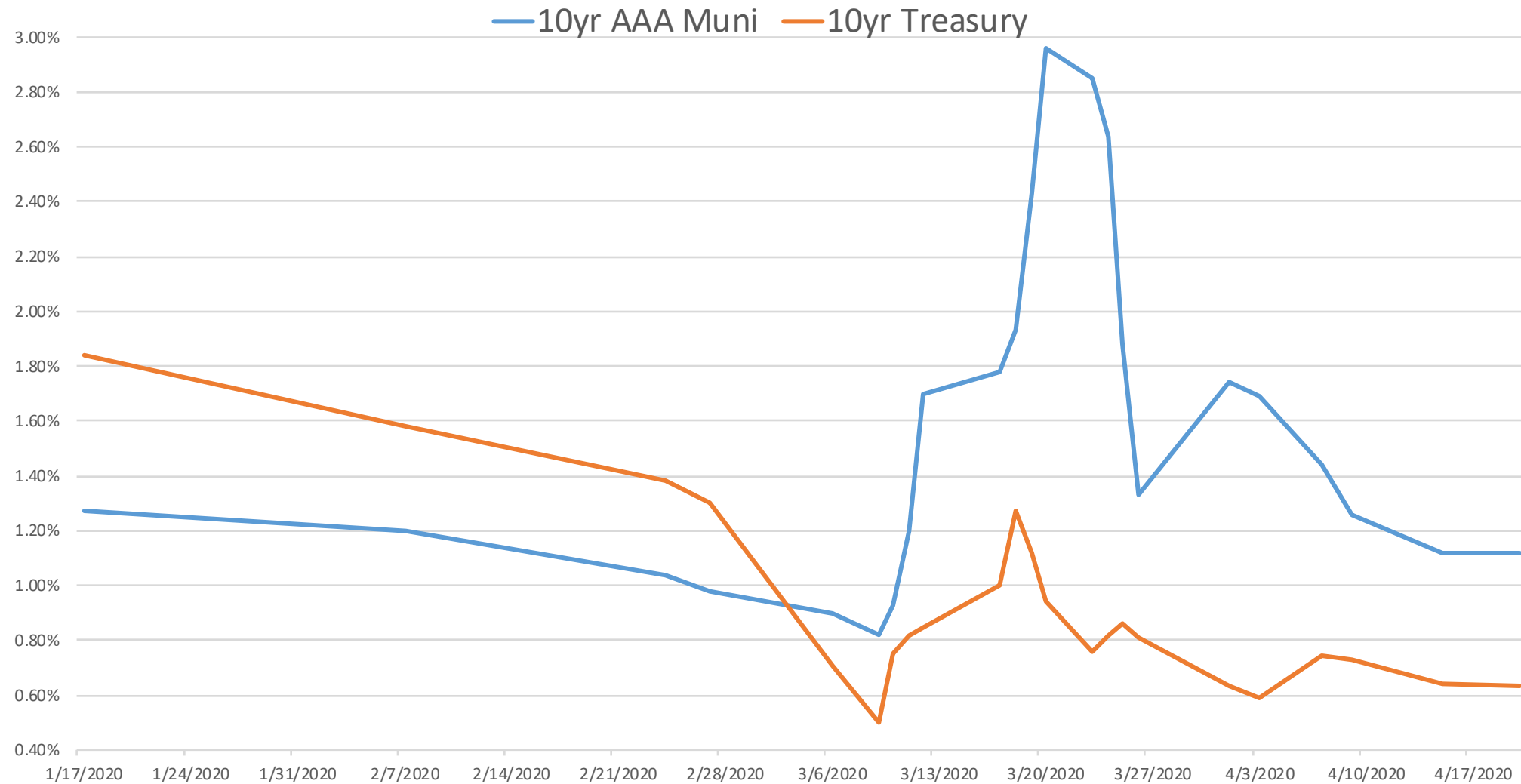


WHAT CAN SCHOOLS REQUEST?

- Amount of last previous year's tax base, using any one of three previous years
- Plus amounts attributable strictly to new property on the rolls (not due to reappraisal)
- If advertisement is run, school district can request up to 4% increase (mandatory) or up to 7% (revenue referendum) plus new programs (the increase in local contribution to MAEP)



Treasury vs. AAA Muni Yield Curve 10-year Term



THINGS BEING DISCUSSED

- Federal dollars may flow in to assist the states with revenue shortfalls in the short term. Details are not available at this date.
- Possible new mitigation procedures due to any new virus outbreaks after we begin to transition back to work and school may include continued distance learning. If required mitigation procedures include continued distance learning in the fall or next spring, each district must be ready.
- Do we really know what is going to happen? How long does the federal and state government really expect this to go on? Should we do contingency planning?



WHAT SHOULD DISTRICTS DO?

- A district should never budget recurring expenses without recurring revenue to offset those expenses.
- Budget Very Conservatively - Currently, we use minimum accreditation standards to determine what expenses have to come out of District Maintenance Funds.
- Payroll and utility costs are recurring expenses that must be considered. These cost may rise annually due to salary/wage step and utility cost increases. Give careful consideration to locally funded salary/wage step increases.
- Payroll expenses are also expected to rise due to increases in the district portion of health insurance premiums.



PAYROLL CONSIDERATIONS

- Look at all positions – no matter how they are currently funded. Most districts do not have the luxury to continue with licensed positions that are not contributing to increasing test scores or that are not an essential position or priority of the district. Districts can no longer look at positions as required “Because we have always had it”. Number of days employed should also be reviewed before the nonrenewal date.
- Non-renewal- State law requires nonrenewal notices to be distributed the later of April 15 or 10 days after the Governor signs the appropriation bill. Due to the Legislature not currently being in session - non- renewal dates will fall much later this year.



PAYROLL CONSIDERATIONS - TEACHER ASSISTANTS

- Unless there are more than 22 students in a Kindergarten classroom, teacher assistants (TA) are not required by accreditation standards. Many districts have TA's in other positions such as first and second grade assistants, in-school suspension monitors, library assistants, hall monitors, guidance office (career center) assistants, parental support personnel, etc. that are paid from District Maintenance funds.
- Some of these positions may be able to be moved to federal funds at the school level if they contribute to the objectives of the specific federal grant/fund.



PAYROLL CONSIDERATIONS - OTHER POSITIONS

- Clerical positions, custodial positions, maintenance positions, transportation positions, nurses, etc. need to be considered when formulating the budget.
- Districts are not required to bus students who live within one mile of the school. Many districts bus students who live much closer than one mile due to safety concerns, including the lack of sidewalks.



PAYROLL CONSIDERATIONS - OTHER POSITIONS

- All of these decisions should be based on each district's priorities. With the increased costs related to health insurance (\$378 per month per employee) and retirement (17.4%), many districts are contracting out lawn care, janitorial, and transportation services to reduce the number of employees eligible for benefits.
- District employee health insurance costs are projected to rise another 5% effective January 2021. A final decision will be made in September 2020.



TRANSPORTATION CONTRACTING

- Some districts are now purchasing their own buses even if they are considering contracting out the management and employees for transportation.
- These contracts are normally for four years with the possibility of extending four additional years.
- If a district owns a fleet of buses, the district is in a much better position to negotiate a lower price for the contract.
- It is critical to have set parameters on how the transition will take place and to have a good idea of the maintenance needs of the transportation fleet at all times.



CHILD NUTRITION

- Child Nutrition Program Labor – School districts get reimbursed based on the type of meal that is being served during the normal school year – one price for Free Lunch students and another for Reduced Lunch Students and a small reimbursement for paid meals unless the district receives a flat rate per meal due to high poverty levels (CEP). Child Nutrition is considered a self-sustaining program, so districts must look at the reimbursement rates as well as the “meal per manhour” costs in determining how many hours that their employees can work.



CHILD NUTRITION

- Many districts have suspended or stopped the “bag lunch program” due to safety concerns, so there will be no reimbursement for those days. The districts are still paying the labor costs for program workers, so this will likely have a huge impact on ending fund balance and cash balance for this school year in the school nutrition programs.



CHILD NUTRITION

- Local School Districts (LEAs) are advised to maintain a fund balance of at least two months operating expenses. Many districts may not have this minimum amount at June 30, 2020. Also, many districts may not be able to transfer budgeted indirect costs for the 2019-2020 year.
- In budgeting for 2020-2021, each district must look at fund balance to determine how much the district must budget in revenues vs. expenses to rebuild fund balance to the minimum amount to be able to open the school year with food and labor costs until the first reimbursement which falls in mid-September.
- For the 2020-2021 budget, indirect costs may not be available so that the Child Nutrition Program can rebuild their fund balance to a minimum level.



CHILD NUTRITION – USDA REQUIREMENTS

- If the Child Nutrition fund goes into a deficit at June 30, 2020, the USDA does NOT allow for those expenses to be recovered in the following school year. Therefore, any deficit in the child nutrition program at year end will have to be covered through a permanent transfer from the District Maintenance Fund.
- If the district lays off the Child Nutrition employees and they file claims for unemployment and receive the additional federal supplement of \$600/week, this may affect their willingness to return to work. The district also reimburses the state unemployment claims dollar for dollar.



YEAR-END FOOD INVENTORIES

- Districts should carefully plan for inventories of purchased food and donated commodities at the end of 2019-2020.
- The amounts on hand and overall dollar amount of inventory on hand at year end will likely be higher than in previous years. Because amounts will likely be higher, private audit firms may be required to perform test counts as a part of audit procedures for the 2019-2020 year. Failure to perform such test counts may result in audit opinion modifications. This can impact districts' accreditation standings.



YEAR-END FOOD INVENTORIES

- Districts should alert their private audit firms when inventory counts are completed and totaled, providing the firms with total inventory figures that will be included on the Child Nutrition Fund balance sheet at June 30, 2020. The private audit firms will make the determination of the need for test counts if tests counts will be performed. Well organized freezers and pantries will help facilitate quick, accurate test counts performed by private audit firms. Like items should be grouped together when at all possible.



DONATED COMMODITIES

- Child Nutrition Programs are encouraged to place orders and receive delivery of Donated Commodities when space permits. However, bear in mind that this will increase the total dollar amount of inventory on hand at year end.
- Vendors charge storage fees for unclaimed commodities at year end. The storage fees are added to delivery costs for the individual districts.



COVID-19 FUNDING

- Even though funds are slated to be used by educational institutions, they are all one-time funds per Mississippi Department of Education.
- Districts must use these funds to supplement the current educational program and make sure not to unknowingly commit future district funds for recurring expenditures or to satisfy expectations, such as periodic equipment replacement or annual software or hardware maintenance costs.
- Districts may use these funds to purchase technology for virtual learning.



COVID-19 FOR DISTANCE LEARNING

Questions for Superintendents to ask:

Are you better off allowing students to check out devices as needed for on-line classes or to promote them as a “one-to-one” initiative?

Is your district going to be in a financial position to replace all of these devices in three years?

Does your district have the infrastructure for a large increase in technology?

What about upkeep on technology devices? Can your technology staff handle the increased load?



COVID-19 FOR DISTANCE LEARNING

Questions for Superintendents to ask:

What funds will you use for the replacement?

Can you charge a fee for the use and use those fees to replace the items?

Normally, anytime you charge a fee for a federal program, the funds must go back into the federal program as program income. Program requirements are not available at this time, but we will be continuing to research to get specifics.

Are these questions part of your plan?



This presentation is not intended to be legal advice but rather a starting point that we hope we can add to as districts work through the next few months

▪ YOUNG LAW GROUP

QUESTIONS?

601 - 354 - 3660

BONNIE@YOUNGLAWMS.COM

JIM@YOUNGLAWMS.COM

WARREN@YOUNGLAWMS.COM

WILSON@YOUNGLAWMS.COM

YOUNG LAW GROUP