

BUDGET MESSAGE

June 1, 2018

The 2018-2019 budget represents a long-standing tradition of sound financial management and long-range planning by the Park Hill Board of Education and district staff. The budget document is an excellent source of information that provides a better understanding of the financial plan and results of the district. This document has been prepared and presented to the Board of Education as a basis for the high quality educational services the Park Hill School District patrons have come to expect. In short, the budget provides the framework by which resources are allocated to accomplish the mission of the Park Hill School District, and serves to guide Park Hill in a fiscally sound and responsible direction for 2018-2019 and years beyond.

Park Hill is an award-winning school district with a bond rating amongst the highest in the state (Aa2 from Moody's) and with the highest recognition provided by Missouri for academic achievement. In Fall, 2015, Park Hill School District was awarded the Missouri Quality Award from the Excellence in Missouri Foundation for the second time in the last decade. Park Hill School District is the only school district in the state to receive this recognition twice. The Missouri Quality Award program is based on the Malcolm Baldrige National Quality Award Criteria for Performance Excellence. In addition, the Park Hill School District has received the Association of School Business Officials (ASBO) prestigious Meritorious Budget Award for eleven consecutive years.

As a part of the district's 2018-2023 strategic plan (Comprehensive School Improvement Plan or "CSIP"), the district has identified a strong financial condition as a strategic advantage toward accomplishing the strategic goals and objectives identified by the Board of Education and community. In addition, the CSIP outlines financial sustainability as a "key to excellence" that supports the entire strategic plan. This budget document provides the foundation for public transparency, and also serves as the focal point for the communication of district financial processes to the community.



Park Hill School District

Building Successful Futures • Each Student • Every Day

VISION

Building Successful Futures • Each Student • Every Day

MISSION

Through the expertise of an engaged staff, the Park Hill School District provides a relevant education in a safe, caring environment to prepare each student for success in life.

VALUES

Student- Focused
Integrity
High Expectations
Continuous Improvement
Visionary Leadership
Equity

STRATEGIC PERSPECTIVES – KEYS TO EXCELLENCE

Park Hill School District will leverage its Keys to Excellence for sustainability into the future.

Academic
Climate
Employee
Finance

GOALS

College, Career, and Life Readiness: All students will graduate college, career, and life-ready.

Access and Opportunity: Ensure success for ALL students regardless of background

In addition to supporting the district's strategic plan, the 2018-2019 budget provides resources for the increasing enrollment within the school district. The 2017-2018 K-12 enrollment of 11,458 is expected to grow in future years as it has for 34 consecutive years, averaging 1.5% growth annually. To address the facility needs, district voters approved a \$110 million no-tax-increase bond issue in April, 2017. The 2018-2019 budget includes \$23.2 million in bond revenue (the second series of bonds associated with April, 2017 vote), and \$79.5 million in expenditures for the district's capital plan. The 2018-2019 capital plan includes the construction of Walden Middle School (opens August, 2019), Hopewell Elementary School (opens August, 2019), LEAD Innovation Center (opens August, 2020), and the district's Support Services and Transportation facility (opens in October, 2019). In addition, capital improvements to existing schools and facilities, including enhanced school safety measures, are included within the capital plan.

The work of developing the district budget is the work of many dedicated individuals, including board members, district administrators, school principals, school budget committees, school leadership groups, school improvement teams, directors, teachers, and support staff. The budget development process is an ongoing cycle taking place throughout the school year, requiring school leaders to simultaneously monitor and evaluate one budget while planning and developing future budgets.

Local, state and national economic conditions play a significant role in the budget development process. Mixed economic conditions have influenced both residential and commercial growth over the last five years. In short, the nationwide economic crisis earlier in this decade significantly slowed assessed valuation growth, reduced the valuation of existing property, and negatively impacted state budget factors with reductions in income and sales tax. As seen by an increase in the new housing starts in the district over the last five years, economic conditions have improved locally and at the state level, positively impacting revenues for the Park Hill School District and Missouri public schools.

Revenue. The taxes derived from local assessed valuation of property are the primary source of revenue in the Park Hill School District. The Platte County Assessor annually assesses the real and personal property in the school district. The 2017 district aggregate assessed valuation was set at \$1.68 billion, up 7.0% from the prior year. In tandem with Park Hill's ad valorem ("according to value") operating tax rate of \$4.7928, one of the lowest rates in the greater Kansas City area, nearly three quarters of all district revenue is generated. 2018-2019 local revenue estimates have been established reflecting a small increase (2.0%) in assessed valuation, and with the assumption of maintaining the current operating tax levy.

Per state law, the district's tax levy will be officially set at a tax rate hearing in August, 2018. At this meeting the Board of Education will decide on a tax levy rate. The 2018-2019 budget has been prepared with no anticipated change in the total tax levy of \$5.4035 (includes operating and debt service tax levies) per \$100 of assessed valuation. However, there may be changes to the tax rate ceiling (made by the Missouri State Auditor) or the actual tax rate based upon the certified aggregate assessed valuation figures provided by the Platte County Assessor prior to the tax rate hearing.

2018-2019 district revenues are impacted by shortfalls in state revenues over the last five years. While an increase in the state's basic formula revenue is anticipated over 2017-2018, much of this increase is due to the district's anticipated increase in enrollment and student attendance, key variables within the foundation formula. While additional students drive revenue through the state formula, it also increases district expenditures. Due in large part to the effect on revenues by growth in district enrollment, total state revenues are expected to increase from \$40.0 million in 2017-2018 to \$40.7 million in 2018-2019.

The 2018-2019 budget has been built with a forecast of \$199.1 million in total revenue and \$162.0 million in operating revenue (operating revenues exclude revenues derived from the debt service levy or sale/refinancing of general obligation bonds). This reflects an anticipated increase of approximately \$8.7 million in operating revenue from 2017-2018. Over 40% of this increase is due to protested tax payments originally due in January, 2018 (in the 2017-2018 fiscal year) but not anticipated to be paid until the 2018-2019 fiscal year as delinquent tax. The remainder of the budgeted operating revenue increase is due to the increases in local revenues (property taxes, Proposition C sales tax), and state revenues (basic formula).

District staff and financial advisors consider assessed valuation growth, the bond market, interest rates, and interest rate risk to determine the size and number of the bond sales, the total not to exceed the \$110 million authorized by voters in April, 2017. For budgeting purposes, the 2018-2019 budget document reflects a sale of \$23.285 million of bonds in Fall, 2018 which is all of the remaining authority granted by voters. These funds will be used to complete the district's capital plan over the next three years.

Expenditures. The 2018-2019 budget includes \$253.2 million in total expenditures and \$164.0 million in operating expenditures. Expenditures are budgeted in the following areas:

<i>Expenditure Object</i>	2018-2019 Budget	% of Total Expenditures
<i>6100-Salaries</i>	92,115,027	36.4%
<i>6200-Employee Benefits</i>	26,372,151	10.4%
<i>6300-Purchased Services</i>	18,258,699	7.2%
<i>6400-Supplies and Materials</i>	14,975,473	5.9%
<i>6500-Capital Outlay</i>	79,589,453	31.4%
<i>6600-Long and Short Term Debt</i>	21,931,376	8.7%
Total	253,242,179	

The district's expenditures have increased over the last three decades primarily due to student growth. Student enrollment has grown by an average of 151 students per year over the last 25 years, with current official K-12 enrollment of 11,458 students in the 2017-2018 school year. In 2017-2018, the enrollment grew by 171 students. The 2018-2019 budget has been crafted to support a district enrollment of 11,650 students, an increase of 192 students (+1.7%).

With enrollment growth comes additional staff to support class size and to support staff to student ratios. In addition, increases in the district's contribution to employee benefits, fuel and energy costs, and contracted increases in student transportation costs, supplies, and other budgeted areas result in expenditure growth.

Through a collaborative negotiations process with staff, the district has agreed to fund salary schedules that reflect 2.5% increases in salary, and a 2.6% increase in total staff compensation (salary and benefits). Staffing ratios in all areas will remain consistent for 2018-2019 which will result in a number of additional staff positions, all dependent on actual student enrollment growth.

The 2018-2019 capital plan includes the construction of Walden Middle School (opens August, 2019), Hopewell Elementary School (opens August, 2019), LEAD Innovation Center (opens August, 2020), and the district's Support Services and Transportation facility (opens in October, 2019). In addition, capital improvements to existing schools and facilities, including enhanced school safety measures, are included within the capital plan. Capital projects

financed through the district's capital fund have also been budgeted cycling out antiquated technology and equipment, repairing facilities as needed (roofs) and replacing heating, ventilation and air conditioning (HVAC) systems as needed.

Fund Balances. The projected gap between operating revenue (\$162.0 million) and expenditures (\$154.0 million) is to be funded by district fund operating and capital balances. The use of fund balances in 2018-2019 and the years following has been a part of a long-range financial plan that includes preparing for new operating costs associated with opening four new facilities within the next two years, and updating and improving existing facilities as outlined in the district's capital plan.

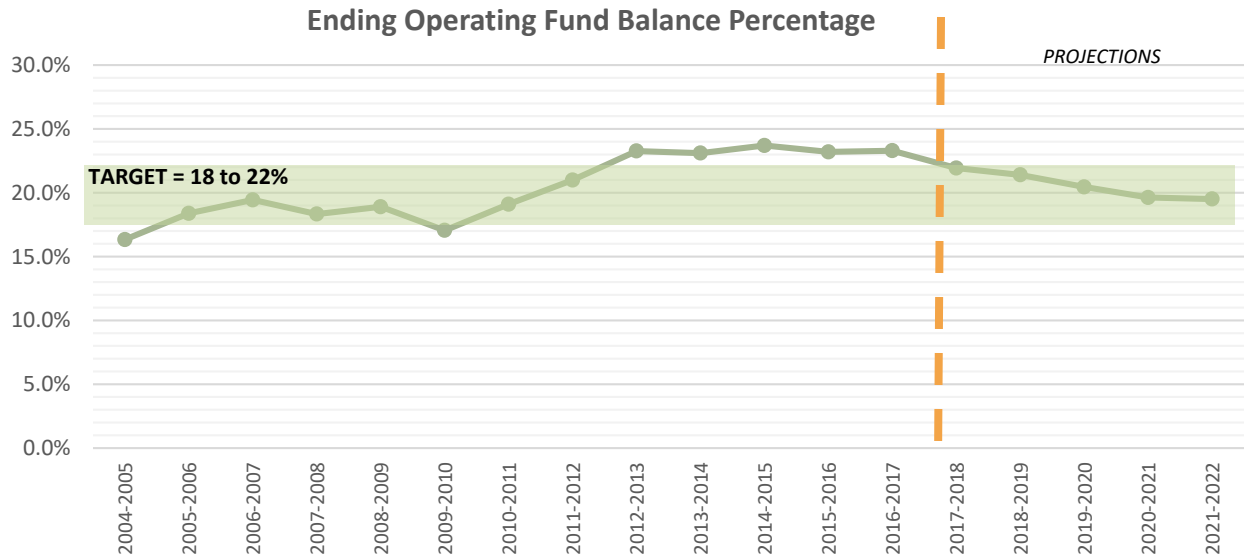
The Park Hill Board of Education has established a target range for operational fund balance at 18 to 22% of prior year expenditures at the end of each fiscal year (June 30). For example, the operating expenditures (less capital) during the 2017-2018 year are projected to be \$144.0 million. The Board of Education has established the target range for the operating fund balance at the beginning of the 2018-2019 fiscal year to be between 18 and 22% of \$144.0 million, or between \$25.9 million and \$31.6 million.

Fund balance is a key metric that the district uses to measure the financial condition of the district, allows the district to meet cash flow demands throughout the school year, balance fiscal year surpluses and deficits, contributes to the exemplary bond rating given the district, as well as provide monies for contingencies. In short, fund balance allows for economic stability and sustainability of the district.

The projected opening operating fund balance for the 2018-2019 budget is projected to be 21.9% of prior year operating expenditures, or approximately nine weeks of operating cash. A commitment was made to the district community in 2002 to increase the fund balance. Over the last sixteen years, the fund balance has increased from 9.6% to the projected 21.9%. Values above the board established range of 18 to 22% had been done strategically in prior years in order to offset the planned expenditures in the years following.

The 2018-2019 budget has been crafted to result in an ending operating fund balance of \$32.6 million, 21.4% of prior year expenditures, which falls within the Board of Education approved range of 18 to 22%. The 2018-2019 budget also includes a plan for the ending capital fund balance to be \$13.3 million, 137.3% of the average of the prior 3-year capital expenditures. This falls outside of the target range of 65 to 85%. The balances above the range are expected to be spent down in future fiscal years to address the capital needs in these years.

All future district budgets will be developed to maintain operating fund balances above 18%. The district utilizes forecasts for future years (budget year plus 3 years) to demonstrate the long-term sustainability of decisions/expenditures made in the current year. The graph on the following page depicts 18 years of operating fund balance data for school years 2004-2005 through 2017-2018 (actual) and 2018-2019 through 2021-2022 (projected).



Debt. The district’s current debt service tax levy is the lowest in the greater Kansas City area. The Board of Education set the debt service tax levy at \$0.6017 in August, 2017 and it is not budgeted to increase.

As of the end of the 2017-2018 school year, the district’s debt stands at \$150.6 million. This is well below the legal debt limit in the state of Missouri of \$250 million.

In addition to repayment of principal and interest on existing bonds, the 2018-2019 debt service budget reflects a \$9.3 million debt payment that had been escrowed from a (crossover) refinance of bonds in October, 2016. This refinance saved district taxpayers over \$1.0 million in interest.

Conclusion

This budget is developed with the best and most recent information available to school district officials. Anticipated expenditures and revenue are estimated projections based on this information. Budget revisions may be made during the budget year to reflect unforeseen circumstances.

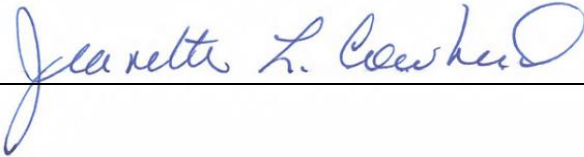
The information included in the budget document is structured to meet the requirements of the Meritorious Budget Award established by the Association of School Business Officials (ASBO). The Meritorious Budget Award is the highest form of recognition in budgeting for school entities. Its attainment represents a significant accomplishment by a school entity and its management. To receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, an operations guide, a financial plan and as a communications medium. The district is proud to have received the Meritorious Budget Award for the last eleven consecutive fiscal years.

The preparation of this report could not have been accomplished without the diligent and dedicated services of the business office and the many district administrative assistants involved in the budgeting processes. We would also like to express our appreciation to the administrators for striving to maintain a tradition of educational excellence in a fiscally responsible manner. Our sincere appreciation also goes to the Park Hill School District Board of Education and our community for providing the fiscal support needed to develop, implement and maintain the high quality of

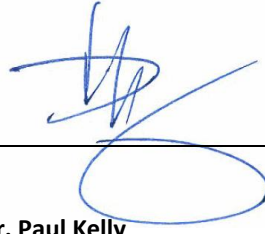
educational programs that has allowed the Park Hill School District to focus on *Building Successful Futures, Each Student, Every Day*.

We are truly hopeful that this document will provide information that will allow the reader to understand the district's financial operations as well as its goals and objectives and how they relate to our education programs and services for the 2018-2019 fiscal year and beyond.

Respectfully submitted,



Dr. Jeanette Cowherd
Superintendent of Schools
Park Hill School District



Dr. Paul Kelly
Assistant Superintendent – Business and Technology
Park Hill School District