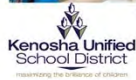




Kenosha Unified School District 2012-13 Proposed Budget

September 12, 2012 Annual Meeting



Every Child Matters

Presented by:

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2012-13 Financial Priorities

Align the Budget with the District's Transformation Plan

- ✓ Improve student achievement
- ✓ Expand collaborative partnerships with families, community and industry
- ✓ Secure resources to support learning



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As part of the District's Transformation Plan, our goals include:

- 1) Improving student achievement by incorporating these principles
 - a) Blended personalized learning – adaptable to individual needs
 - b) Multi-dimensional life and career skills such as creativity, innovation, critical thinking, problem solving, communication and collaboration
 - c) Relevant global knowledge (content, information, media literacy, social and cross-cultural competencies)
- 2) Expand collaborative partnerships with families, community and industry
 - a) Engage community partners
 - b) Foster a service learning society
 - c) Welcoming environment/sense of belonging
 - d) Lifelong learning opportunities for all families
- 3) Secure resources to support learning
 - a) Maximize technology
 - b) Build partnerships and collaborate with community businesses, higher learning institutions, and other community organizations
 - c) Secure available external funding
 - d) Evaluate resources annually to ensure maximum effectiveness

Certain action steps have been identified crossing over fiscal years 11/12, 12/13, and 13/14.

For more information on the Transformation Plan – see our website <http://www.kusd.edu/transformation.pdf>

2012-13 Financial Priorities

Maintain fiscal responsibility

"If unchecked, approximately \$12m increase in expenditures will continue to grow. Expenditures growing at projected current 4.8% increase through 2015."

- Crowe Horwath LLP, January 2011
Financial and Process Assessment



Maintaining fiscal responsibility to the District's stakeholders continues to be at the top of our priorities.

In January 2011 the District engaged the firm of Crowe Horwath to evaluate the organizational finance structure of KUSD. That study made observations and recommendations for 7 significant areas including:

- Structural deficit
- Athletic Funds
- Activity Funds
- OPEB Liability
- Professional Contracts
- Board Financial Reports
- Organizational structure.

The District has put in place many of the operational changes Crowe Horwath recommended.

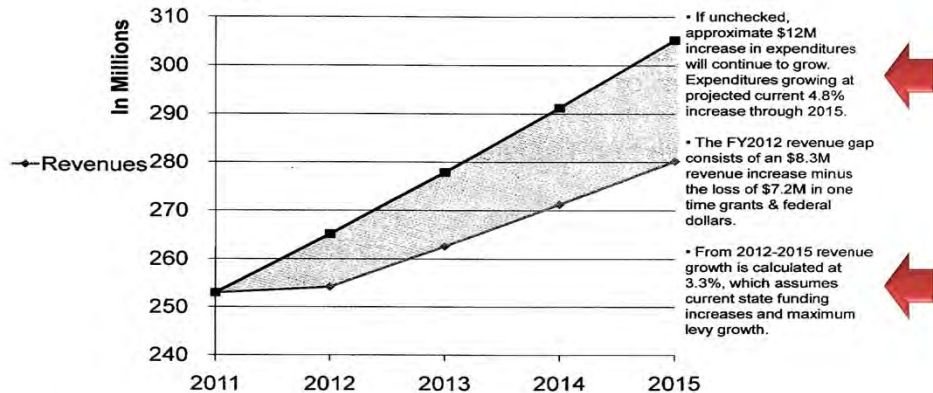
For more information on the Crowe Horwath study, see our website at http://www.kusd.edu/media/pdf/budget/2010_11/financial_process_assessment.pdf

2012-13 Financial Priorities



The Unique Alternative to the Big Four®

Current Budget Trends



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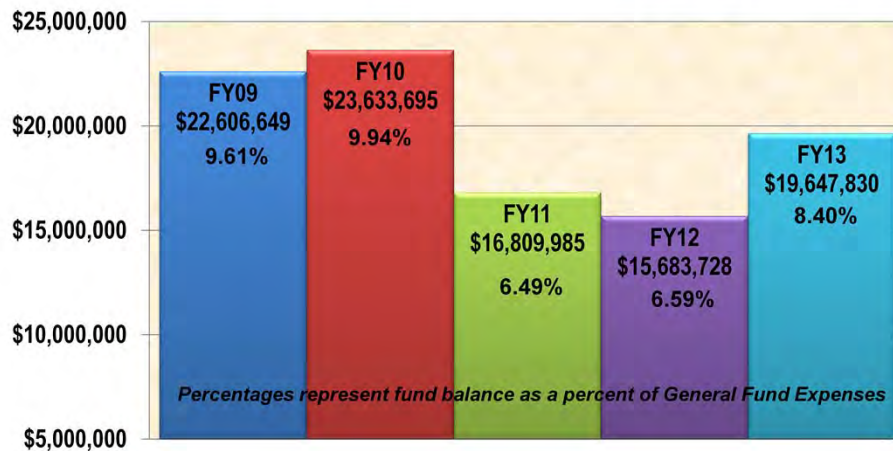
As noted above, Crowe Horwath noted the structural deficit that required attention. Expenditure growth was projected to exceed that of revenue. The firm recommended that the District:

1. Bring revenues in line with expenditures
2. Restore general fund reserves
3. Consider the General Fund and Special Projects fund as one
4. Reduce expenditure growth to achieve a structural balance

The District has implemented these changes as reflected in the 2012-13 budget.

2012-13 Financial Priorities

Restore fund balance to board policy levels



The District's budget plan includes restoring fund balance with the goal of meeting board policy to be at a minimum of 15% of budgeted expenses, representing approximately 45 days of operations. Restoring fund balance will help with improving our bond rating, and helps the district with cash flow needs throughout the year.

Given the changes at the state level, it is not uncommon for school districts to have tapped into their fund balances this past year, however the impact has been controlled by the District.

The General Fund balance was reduced in FY12 by approximately \$1,126,257 (preliminary) compared to a decrease of \$8,230,823 that the District originally budgeted. In February 2012 the District took strict measures in reducing expenses and exceeded the goal. Overall, the District reduced the impact to the fund balance by over \$7 million through reduced spending, efficiencies, use of technology, and improved processes. The District still had more expense than revenue for FY12, however the District did not spend all the funds that had been budgeted.

The preliminary budget proposal presented in February included a plan to restore fund balance. As shown by the graph above, the District plans to restore fund balance by approximately \$3,964,102 in FY13. Certainly the FY12 results demonstrate that the District is doing what we said we would do. The FY13 budget continues with the goal of restoration, reduced spending, and more efficiencies.

Budget Variables

Student Membership	Revenue Limit	Equalization Aid
Open Enrollments	Equalized Property Values	Mill Rate
Debt Expense	Tax Levy	Salary & Fringes

These variables are key to developing the District's budget. Most of these variables are controlled by outside factors, while several have limited control by the District such as the bottom row that is in blue and red.

We can be prudent in structuring our debt and take advantage of lower interest rates, when available.

We can tax advantage of a full tax levy within the limits set forth by the state, however there is a cap on tax levy and that is controlled by the state.

We also have limited control in this budget year with salary and fringes. We have contractual obligations which control some of the expense. Our flexibility comes through managing staff levels.

Some of these variables affect others; some variables may decline, like student enrollment, for example, which affects revenue. The challenge for the District is to find a balance between our revenue and expense.

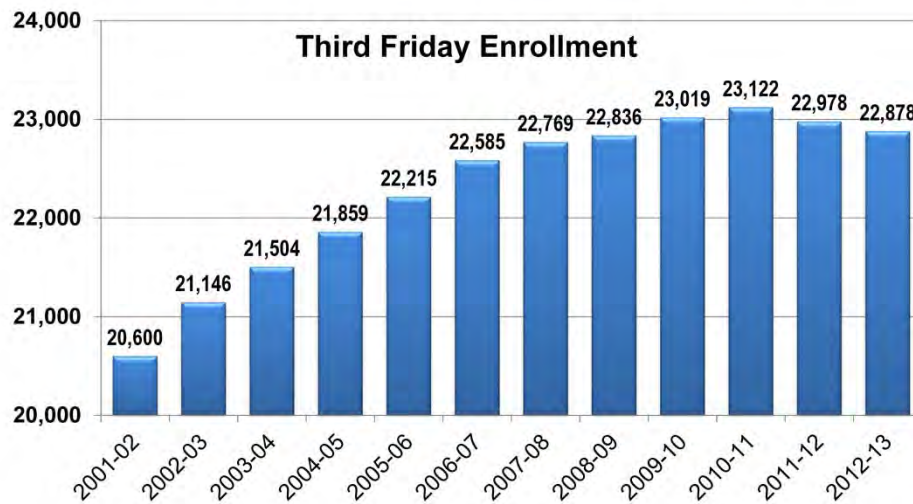
KUSD Fund Structure

General Fund	Debt Service	Community Service	
<ul style="list-style-type: none">• Operations (majority of salaries, benefits and other expenses)• Grant Activities	<ul style="list-style-type: none">• Transactions for repayment of bonds, notes and loans.	<ul style="list-style-type: none">• Activities supporting all Kenosha, Pleasant Prairie and Somers community members	
<i>General, Debt Service and Community Funds Require a Tax Levy</i>			
Special Projects	Capital Projects	Food Service	Trust Fund
<ul style="list-style-type: none">• 40% funding by federal or state grants (Special Education / Head Start)	<ul style="list-style-type: none">• Expenditures for expansion and remodeling	<ul style="list-style-type: none">• Activities related to student food services	<ul style="list-style-type: none">• Assets held by the District• Donations• Employee post-employment benefits
<i>No Tax Levy Required for These Funds</i>			

Funds in top green row – Require Tax Levy

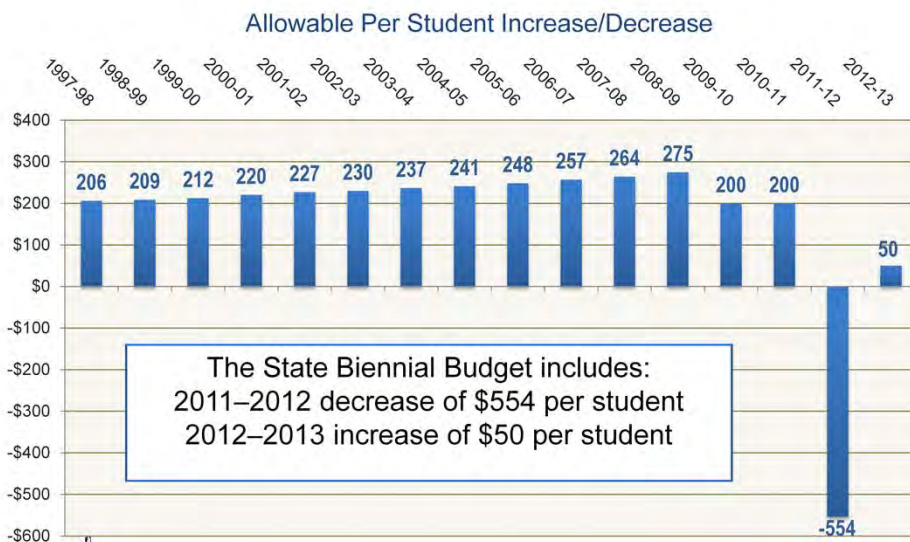
Funds in bottom blue row – No Tax Levy

Student Enrollment Trends



Our initial enrollment projections indicate a decrease of 100 students. The District is required to report counts on the 3rd Friday of September, and then again on the second Friday in January. The budgeted revenue and expenses for FY13 will be adjusted according to 3rd Friday enrollment.

Per Student Revenue



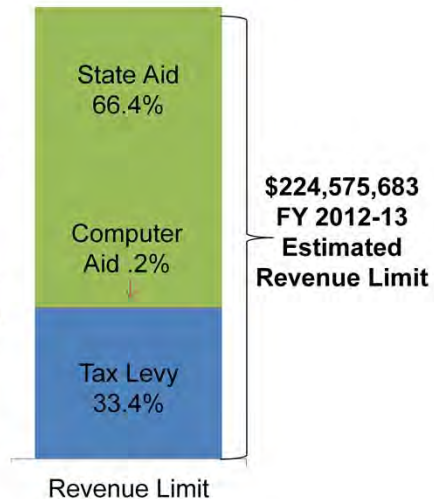
The District experienced a loss in revenue of nearly \$13 million last year due to the decrease of \$554 per member (student FTE).

This year the state biennial budget includes an increase of \$50 per member which equates to approximately \$1.2 million. Last year the per pupil revenue was \$9,585 and this year it is estimated to be \$9,857.

Revenue Limit Calculation

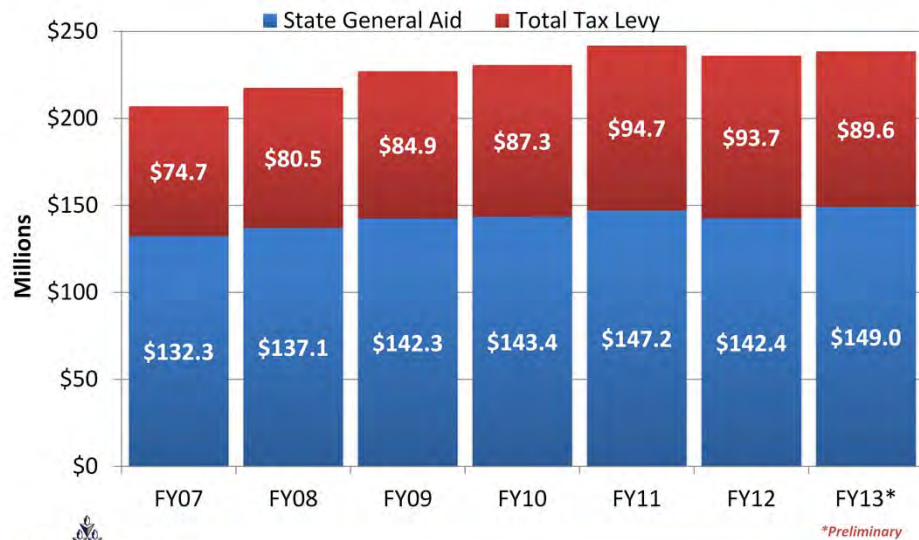
The District's main revenue sources are restricted by the Revenue Limit formula:

- General State Aid based on last year's expenses and equalized property values
- Local Tax Levy is the difference between the Revenue Limit and the projected General State Aid
- Computer Aid comes from the Dept. of Revenue and reduces the amount of tax levy



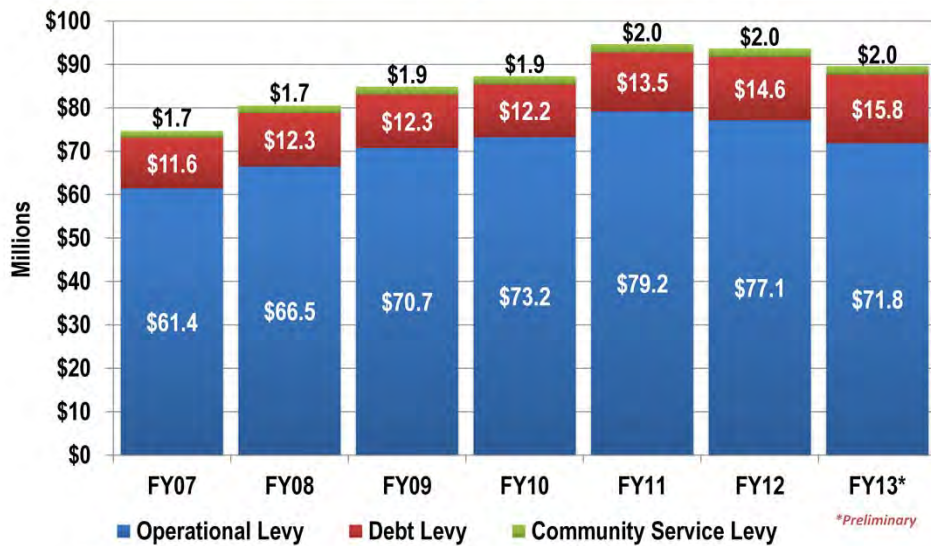
On an estimated revenue limit of \$224.6 million, 66.4% of that is driven by state aid, while 33.4% is left over (after computer aid is deducted) for tax levy. Our preliminary budget includes levying to the maximum by state law.

Revenue Limit History



This chart shows the mix between general aid and total tax levy. While the total Revenue Limit this year is close in size to last year, the mix has changed. We have more general aid this year than last year, but have less total tax levy than the prior year.

Tax Levy History



Here we have the last 7 years of tax levy history. Our total Levy has decreased from last year by approximately \$4 million dollars.

KUSD Tax Levy Comparison



	FY 2010-11	FY 2011-12	FY 2012-13
Total Tax Levy	8.47% increase	1.04% decrease	4.38% decrease
Mill Rate	\$10.60 per \$1,000	\$11.02 per \$1,000	\$11.10 per \$1,000
Property Tax on \$200,000 House	\$2,120	\$2,204	\$2,220

Current mill rate is calculated on equalized valuations decreasing by approximately 5% on average. A lower equalized valuation can increase the District's mill rate. The final equalized valuations and DPI revenue limit information is released in October. At that time, the District will update the tax levy and mill rate.

How Your Dollar is Spent

76¢ on the dollar is spent on teaching, transporting, supervising and counseling students.

11¢ is spent on operating and maintaining facilities and grounds.

7¢ is spent on library materials, professional learning and curriculum development.

6¢ is spent on central, fiscal and I.T. services



General Fund Expenditures by Purpose:

\$177.0 million - School Teaching & Learning

\$ 15.6 million - Library Media, Professional Learning and Curriculum Development

\$ 25.0 million - Operating and Maintaining Facilities

\$ 15.2 million - Central, Fiscal and IT Services

\$232.8 million Total General Fund Expenditures (*Preliminary*)

2012-2013 Budget Assumptions

Revenue Summary

- \$50 per pupil revenue increase
- New categorical aid of \$1.1 million
- General state aid increases by \$6.6 million
- \$2m decrease in Federal grants
- Average 3% increase projected in fees
- 4.38% projected decrease in tax levy



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- \$50 per pupil revenue increase, but as shown on a previous slide, our increase is not that significant for FY13.
- New Categorical Aid of \$1.1 million is added this year and is outside the revenue limit – a benefit to the District. This is a one-time addition per the Biennial Budget.
- General State Aid increases by \$6.6 million
- Preliminary decrease of \$2 million in Federal and State grants are planned (this is adjusted as we are notified of grant awards)
- Slight increase projected in fees of approximately \$25,000
- **Preliminary** 4.38% decrease in tax levy (approximately \$4 million) is projected for FY13. Our overall revenue limit increased slightly and with general aid taking up a larger portion of that limit, reduces the amount in which we are able to levy. The preliminary budget includes taking advantage of levying to the maximum by law for the general fund.

2012-2013 Budget Assumptions

Expense Summary

- Salary increases per employee contracts
- Decrease in health insurance expense
- Overall 5.2% decrease in staffing costs
- 2-5% increase in other employee benefits
- 4.3% decrease in operating expenses

- Salary increases have been incorporated per the collective bargaining contracts
- Through a new WEA Trust proposal, the District plans to save roughly \$730,000 in health insurance costs – this amount will vary depending on employment enrollment.
- Other benefits such as life insurance and retirement increase 2 to 5% over last year.
- The District plans to reduce overall expenses by \$21 million as presented and approved by the Board in February.
- Additional budget requests totaling \$2.4 million have been added since February.

Moody's Bond Rating

- Long-term debt - A1 with “stable outlook”
 - Rating based on sizeable tax base, manageable debt burden, progress made in CDO litigation, and the District’s commitment to rebuilding reserves.



The District's bond rating is key to lowering our borrowing costs. A better rating provides more opportunity in the market and lowers the interest expense.

Moody's Global Long-Term Rating Scale:

- Aaa Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
- Aa Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
- **A Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.**
- Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
- Ba Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
- B Obligations rated B are considered speculative and are subject to high credit risk.
- Caa Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
- Ca Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aaa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Moody's Bond Rating

- Short-term debt – MIG1 (highest rating)
 - Rating based on management's focus in restoring fund balance.
 - District's performance in strong fiscal management and established cash flows.
 - Higher rating will lower the District's interest expense for FY13.

Due to the District's demonstrated action to reduce expenses and restore fund balance, Moody's has rated the District's upcoming short-term borrowing promissory notes at the highest rating possible. Clearly Moody's recognizes the improvement made in the District's fiscal health.

The Municipal Investment Grade (MIG) scale is used to rate US municipal bond anticipation notes of up to three years maturity. Municipal notes rated on the MIG scale may be secured by either pledged revenues or proceeds of a take-out financing received prior to note maturity. MIG ratings expire at the maturity of the obligation, and the issuer's long-term rating is only one consideration in assigning the MIG rating. MIG ratings are divided into three levels—MIG 1 through MIG 3—while speculative grade short-term obligations are designated SG.

- **MIG 1 This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.**
- MIG 2 This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.
- MIG 3 This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.
- SG This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Transformation - Progress

What's New in KUSD Elementary Education:

- ✓ Collaborative classroom family structures in elementary education to meet the learning needs of all children
- ✓ World languages expanded to K-5 levels using the Rosetta Stone immersion process
- ✓ Wednesday early release moved to Friday adding value to teacher collaboration time
- ✓ Expanded eSchool options

Transformation - Progress

What's New in KUSD Secondary Education:

- ✓ Established higher expectations, universal 8th grade algebra at all middle schools
- ✓ Increased world language opportunities, “Tell Me More” model for all for all middle school students
- ✓ Expansion of on-line learning opportunities for students at middle and high school level

Transformation - Progress

Secondary Education, continued

- ✓ Community service expectation for every graduating KUSD student
- ✓ Year long, course of study in English and math at the high school level
- ✓ Roll out of Common Core State Standards Initiative, K-12

Transformation - Progress

Secondary Education, continued

- ✓ Advancement of safe and supportive initiatives
- ✓ Expansion of honors opportunity at the middle school level



Transformation - Progress

What's New – District Wide:

- ✓ Student email addresses for all KUSD students
- ✓ Online enrollment and student account options
- ✓ Online payment capabilities
- ✓ Improved regional technology support plan

The Budget Supports the Plan

How?

- ✓ Staffing the classrooms with dedicated teaching and support professionals
- ✓ Use of innovative technology
- ✓ Outstanding fine arts and physical education programs

The Budget Supports the Plan

Continued...

- ✓ Outreach programs supporting the entire community
- ✓ We are a fiscally responsible District
- ✓ A solid plan that supports educating the students – our #1 priority

Thank You for Attending!

