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MEMORANDUM

To: Burlington Board of School Commissioners
From: Tom Flanagan, Superintendent
CC: Nathan Lavery, Executive Director of Finance and Operations
Date: 12/19/2023
Subject: FY25 Budget Development Update

Purpose: This memo is intended to provide updates on the budget development work being undertaken by the BSD staff, and provide the latest financial estimates. BSD staff used the Strategic Plan and the Board's priorities, below, to guide the work and decision-making process:

- Recognize that our staffing level must be responsive to enrollment changes.
- Limit budget growth due to increases in wages, benefits and pending BHS/BTC costs.
- Ensure funding to meet strategic plan objectives.
- Continue to offer robust programmatic offerings.
- Consider the multi-year impact of changes and minimize annual disruptions.
- Identify investments that serve our most vulnerable students and are being made in response to the financial capacity gained from the new approach to pupil weighting.

Current projections see a tax impact of 9.5%, though there is significant work to be done to consider further additions to and reductions from the budget. However, one unique feature of the new education finance law is that increases in FY25 tax rates are capped at 5%, and BSD appears to qualify for this cap.

Tax Rates (without Cap): BSD staff has analyzed the annual letter from the Vermont Department of Taxes forecasting education tax rates, and has also received preliminary information from the Agency of Education (AOE) on BSD's Long Term Weighted Average Daily Membership (LTWADM) for FY25 budgeting. LTWADM is the new method of calculating enrollment for tax purposes. When taken together, this information allows us to make preliminary tax estimates. These estimates do not account for the Common Level of Appraisal (CLA), just as the estimated average impacts in the letter do not consider the CLA adjustments.

To estimate tax rates, BSD first estimated the total amount of Education Spending, since this spending drives tax rates. The Preliminary Budget Assumptions were the foundation of this estimate, onto which were added new costs that were considered either unavoidable or, if discretionary, were considered to be of the highest priority for new spending.

The tax estimate is based on LTWADM of 6,753.50, and this number reflects the significant benefit to BSD of the new pupil weighting methodology. To put the benefit of the new weights in context, BSD could spend about $9 million more in FY25 than we budgeted in FY24 without increasing tax rates.

The single most significant driver of spending (and therefore tax rates) is paying the debt service on money borrowed to build the new BHS/BTC campus. This cost ($9.5 million in FY25) drives up the tax rate estimate by about 11%. As a reminder, prior to the community bond vote, BSD estimated that the FY25 impact on tax rates would be a 9.5% increase, so this actual impact was extremely close to our pre-bond estimates (despite the increase in interest rates).

The impact of our new costs (which is either new activity or activity previously funded by federal grants) and the relief provided through LTWADM is a budget increase of $17.6 million, which is currently estimated to produce a 9.5% increase in Education Property Taxes.

Tax Rates (with Cap): One unique feature of the new education finance law is that increases in FY25 tax rates are capped at 5%, and BSD appears to qualify for this cap. However, the law also builds in a review of a district's budget if there is an increase in spending of more than 10% per LTWADM. BSD's currently projected spending level would trigger this review. If a district fails this review, the community pays the calculated tax rate rather than being capped at 5%. Presumably, BSD would pass the review since our budget increase is driven largely by the BHS/BTC project.

One important consideration with respect to the tax cap is that it is a temporary form of relief. Under current law, when the caps expire in two years, communities benefiting from the caps will experience a large tax rate increase. For that reason, it is important to consider the long-term impact of increased spending even when the short-term tax impact on the community is artificially limited.

Possible Additions and Reductions to the Budget: Below are additions I believe we will be bringing forward as this process goes along, though there are more strategic plan initiatives that Cabinet will be discussing that could also be brought forward. While we are fairly confident in the additions below, it should be noted that we are currently reviewing budget reductions as well.

Additions		
Wages & Benefits	$4,000,000	Collective bargaining agreements, health insurance
Operating	$660,000	Inflationary in largely non-discretionary areas.
BHS/BTC Bonding	$9,500,000	
DtBHS lease	$250,000	Rent could be going up by $250,000
Rock Point Lease	$475,000	$325k based on $3m for 15 years at 6.1%
Sara Holbrook lease	$50,000	
YMCA Rental	$50,000	Gym space for BHS
Magnet School Recommendations	$320,000	Net new spending of recommendations
Investigations	$100,000	
BHS School Safety	$91,000	Two positions at 35k each, wages and benefits
Ex. Dir. School Leadership	$166,000	Wages and benefits
Mental health support for alt. programs	$100,000	
Possible Strategic Plan Additions	$1,770,000	Items still being discussed by cabinet
Possible Total	$17,532,000	At a $17.5m increase, the estimated tax impact is 9.5%

Elementary Art: BSD's equitable budgeting model indicated that we could reduce elementary art positions at Edmunds Elementary (EES) and Integrated Arts Academy (IAA). BSD reviewed this option, along with the possibility of increasing elementary art to full-time at all schools. We are in the process of making a final decision on our recommendation here.

Budget Development Work: RISE proposals from schools are due December 15. BSD's Cabinet held another budget meeting on December 12 and anticipates meeting again during the week of December 18. The Cabinet is focused on making recommendations about potential new investments and offsetting reductions. This includes new spending in support of the District's strategic plan objectives and responsive to the intention of the updated weighted pupil.

Potential reductions include areas where we are staffed more robustly than our budget model projects as necessary based on enrollment or class sections, as well as other areas being considered for reduction based on input from the cabinet (such as positions and operating budgets for non-instructional departments).

Next Steps:

- Cabinet meets again to further narrow the list of potential new investments and offsetting reductions.
- School Board provides feedback on the estimated tax rate impact that the recommended budget should seek to achieve.